

We

are...

clear

consistent

unstoppable

swift

smooth

systematic

energetic

adventurous

refreshing

satisfying

consumer-savvy

reliable

bold

confident

preferred

exciting

high-profile

competitive

motivated

focused

far-reaching

productive

efficient

powerful

progressive

youthful

cool

insightful

community-oriented

streetwise

GROW

OUR MISSION

We have absolute clarity around what we do:

We Sell Soda.

WINNING



We commit ourselves to these
operating principles:

Rules of the Road

1. Drive Local Market Success.
2. Act Now. Do It Today. Get Results.
3. Set Targets. Keep Score. Win.
4. Respect Each Other.

Our success will ensure:

Customers Build Their Business.

Employees Build Their Futures.

Shareholders Build Their Wealth.

\$ in millions, except per share data	2000 ⁽¹⁾	1999	1998
Net Revenues	\$7,982	\$7,505	\$7,041
Operating Income ⁽²⁾	\$ 590	\$ 396	\$ 277
EBITDA ⁽²⁾	\$1,061	\$ 901	\$ 721
EPS ⁽²⁾⁽³⁾	\$ 1.53	\$ 0.71	\$ 0.17
Operating Free Cash Flow ⁽⁴⁾	\$ 273	\$ 161	\$ 125
Return On Invested Capital	7.6%	6.0%	5.0%

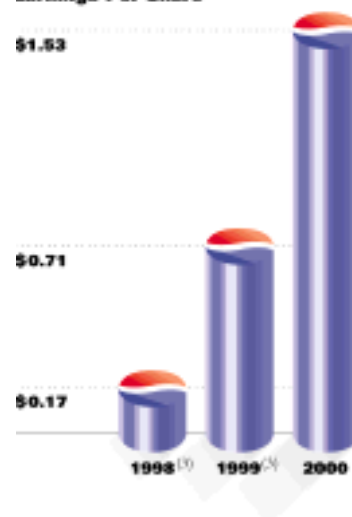
⁽¹⁾Our 2000 results were impacted by a change in estimated useful lives of certain categories of assets and the inclusion of an extra week in our fiscal year. The favorable impact from the change in asset lives increased EPS by \$0.26, and the extra week in fiscal year 2000 increased EPS by \$0.05.

⁽²⁾Excludes the impact of unusual impairment and other charges and credits.

⁽³⁾Fiscal years 1999 and 1998 reflect the initial public offering of 100 million shares of common stock on March 31, 1999, as if the shares were outstanding during the entire periods presented.

⁽⁴⁾Operating Free Cash Flow is defined as net cash provided by operations less net cash used for investments, excluding cash used for acquisitions of bottlers.

Earnings Per Share⁽²⁾



LETTER TO SHAREHOLDERS

Dear Fellow Shareholder,

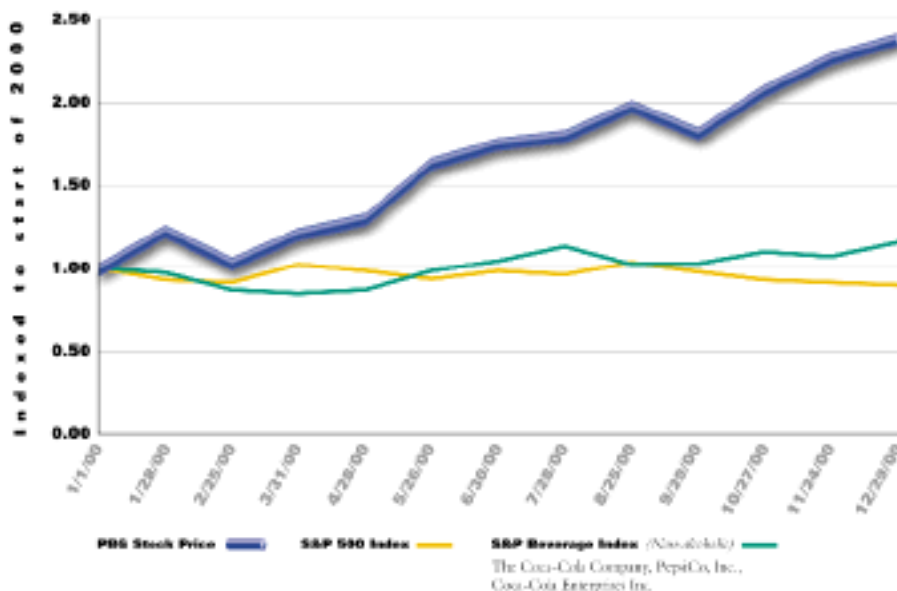
Selling soda is an exciting proposition. That excitement can come from the launch of a new brand, as you feel quick success and the glimmer of a promising future. Sometimes the rush of adrenaline comes from bringing new focus to an established brand. Or when you provide great service, become more productive or develop new capability. Satisfaction also comes from delivering on what you promised. The year 2000 at The Pepsi Bottling Group was a memorable one for all these reasons. In this, our second year as a public company, we continued to build on the strong foundation we established in 1999. This year's story is about profitability, our people and their capability, and most importantly, it's all about growth.

We once again delivered outstanding results, and the market rewarded our

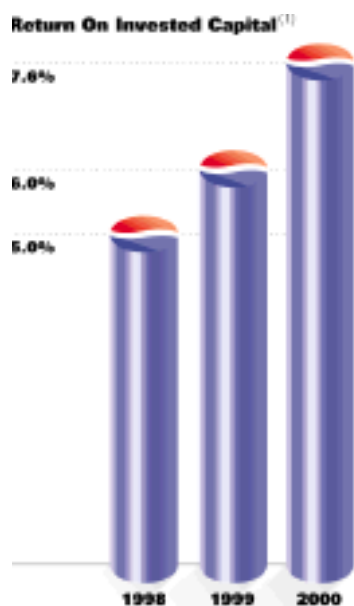
consistency. Our stock grew more than 140 percent in 2000, and was one of the top performers on the New York Stock Exchange. In a sea of 'new economy' companies, it was refreshing to note that in 2000, our internal mantra of "We Sell Soda" translated externally to "We Deliver Returns."

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) grew 18 percent for the year, led by solid net revenue per case growth of 6 percent in the United States and continued strong international performance. We generated \$273 million in operating free cash flow for the year,

Stock Price Performance



up \$112 million from last year's results. We more than doubled our earnings per share for the year to \$1.53, and our return on invested capital continued its move upward, finishing the year at 7.6 percent. This was 1.6 points higher than 1999, achieving our weighted average cost of capital well ahead of our original plans.



⁽¹⁾ Excludes the impact of intangible impairment and other charges and credits.

A key driver behind these results was continuing our progress in improving the take-home economics of our business. Two-thirds of our business comes from sales in this segment. Plain and simple, we must get the pricing element of this equation right in order to achieve success. The only way to do that was to increase our pricing in our largest take-home channel, supermarkets, in a way that provides good value for our consumers and a profitable return for our investors. We began this effort in 1999 and continued it in 2000, raising U.S. net price per case by about 5 percent.

Ensuring continuing cold drink growth remained a key area of emphasis. In 2000, we added more than 140,000 cold drink equipment placements in the U.S. and Canada.

On a constant territory basis, our pricing increases, cold drink growth and strong international volume growth of 7 percent resulted in worldwide volume growth of 1 percent and healthy net revenue growth of more than 4 percent. We expect that the increasing volume momentum we established in the fourth quarter will continue to pick up steam in 2001.

Another important lever impacting our overall results is controlling cost. In 2000, we did this, all while achieving new records in product quality and consumer satisfaction. We improved the number of cases we produce per hour with the introduction of several new high-speed bottle lines. We were able to hold transportation costs per case in the U.S. flat, despite fuel increases, by increasing the payload our vehicles carry. These are just two examples of what occurs in some of the 400 locations across our system, as our teams look for new ways to increase their productivity, extend the life of our assets and reduce costs. Those important efforts are continuing in 2001.

The capability of our organization grew by leaps and bounds in 2000. We have a front-line workforce of smart, dedicated, hardworking people and we made signif-

icant investments in them. We also gave our front-line supervisors the tools and the skills they needed to lead their teams. We launched one standardized method of selling and ensured it was understood and used effectively by our sales force. And we went back to school this year, recruiting many talented new employees off college campuses to make sure PBG's leaders of tomorrow are learning our business today.

As remarkable as this year's results were, I feel that the future holds even more promise. Our category, liquid refreshment beverages, is expected to grow at a 4 percent rate, which in comparison to other packaged goods, is very healthy. No other company is in a better position to capitalize on that trajectory. So our biggest challenge is to ensure we get at least our fair share of that category growth.

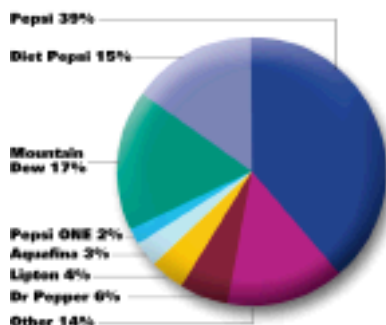
We have all the necessary elements to succeed, beginning with our brands. In 2000, we brought new excitement to Brand Pepsi by re-launching the Pepsi Challenge across our system, which we will continue in 2001. In flavors, we increased the activity and visibility of Mountain Dew, Mug Root Beer, Orange Slice, Wild Cherry Pepsi and Lipton Brisk. We launched a new lemon-lime, Sierra Mist. And, in the non-carbonated segment of our business, our powerhouse brand, Aquafina, has already become the number one player in the water category. There is a big opportunity to take advantage of this lead and move into a commanding

position, and we are focused on doing just that. In the single-serve juice drink category, Pepsi's FruitWorks is coming on strong.

With the switch to Dole juices at the beginning of 2001, we see significant growth possibilities for both juices and juice drinks. We also hold almost a 90 market share in the ready-to-drink coffee market, with our Frappuccino product from Starbucks.

Beyond our brand portfolio, we are blessed with many other assets. Our strong culture is framed by a simple mission statement that emphasizes the importance of winning each day, in every market and with every customer. We are improving the business with new tools and technology that add to our efficiency and productivity. Our partnership with PepsiCo grows stronger each day. We depend on each other and we work together to enhance our mutual progress. I believe our proven ability to execute in the marketplace is second to none. Our capability to succeed begins with the commitment

U.S. Brand Mix
percent by volume 2000



and dedication of our front line, and ends with our senior management team and Board of Directors, whose experience and will to win are an unbeatable combination.

Because of the health of this business and all we've accomplished, it's time to pave the way for a new generation of leadership for PBG. In January of 2001, with the full support of our Board of Directors, I announced that we intend to elect John Cahill, our President and Chief Operating Officer, as PBG's new Chief Executive Officer later this year. I will continue on as Chairman, with John as my partner, just as he has been since the launch of our company. John has the intelligence, the experience and the discipline to continue moving this business forward. He stands, with the

rest of our strong team of senior leaders, our talented employees and me, ready to guide PBG's continuing success, and yours. As you turn the pages of this year's annual report, I hope you'll feel the confidence that I feel about The Pepsi Bottling Group. We are growing – and all signs point to unlimited prospects for the future.

Craig Weatherup

Chairman & Chief Executive Officer

We are...

Consistent

Clear

The year 2000 marked the beginning of PBG's push to make Aquafina the leading water in the take-home segment. Efforts included the strategic placement of Aquafina displays near likely pairings with produce, prepared salads and health foods.

Unstoppable

PEPSI-COLA

The year 2000 was undoubtedly one of strong financial growth for PBG, the result of improvements in the basic economics of our business. But the year was also marked by substantial progress in our marketplace execution, presence and distribution, marketing and selling capability, and customer service.

We have demonstrated that we are consistent, confident, determined, focused, progressive, consumer-savvy... and so much more. Going forward, these are the qualities that will enable PBG to continue adding great value to the brands we carry. They are the attributes that will ensure our future growth.

With two-thirds of our volume sold as take-home product – that is, product sold for future consumption – the cornerstone of our business is in foodstores, supermarkets and mass-merchandise outlets. These markets are dynamic, drawing household shoppers who are more convenience-driven and health-conscious than ever, and who face an increasing number of beverage options every time they shop. The good news is that the PBG lineup offers a beverage to suit nearly every soft drink need and preference.

Even better news is that among the numerous types of beverages we offer, in 2000, PBG moved on two particu-

larly strong fronts to foster growth in the U.S. take-home segment: bottled water and flavor carbonated soft drinks (CSDs).

A water-tight strategy

PBG sales in 2000 confirmed what industry research has told us: today's

consumers show a growing

preference for non-

carbonated soft

drinks. They are

more likely than ever

to select juices and juice

drinks, ready-to-drink teas and coffees, and bottled water – to consume on the run and at home. And by far, the fastest growing non-carbonated category in

U.S. consumption of bottled water is projected to increase by **10** gallons per person by 2010.

the U.S. is water,

which has grown

on average almost

11 percent

annually over the

past three years,

nearly five times

the rate of the

overall liquid refreshment beverage

industry in the same time period.

With Aquafina already the leading bottled water brand in the cold drink segment of our business, a top priority for PBG in 2000 was to build greater brand presence for Aquafina in take-home outlets.

The placement of thousands of Aquafina end-cap displays – many of which were centered around an Aquafina cooler – helped build brand presence for our water in supermarkets and mass-merchandise outlets.



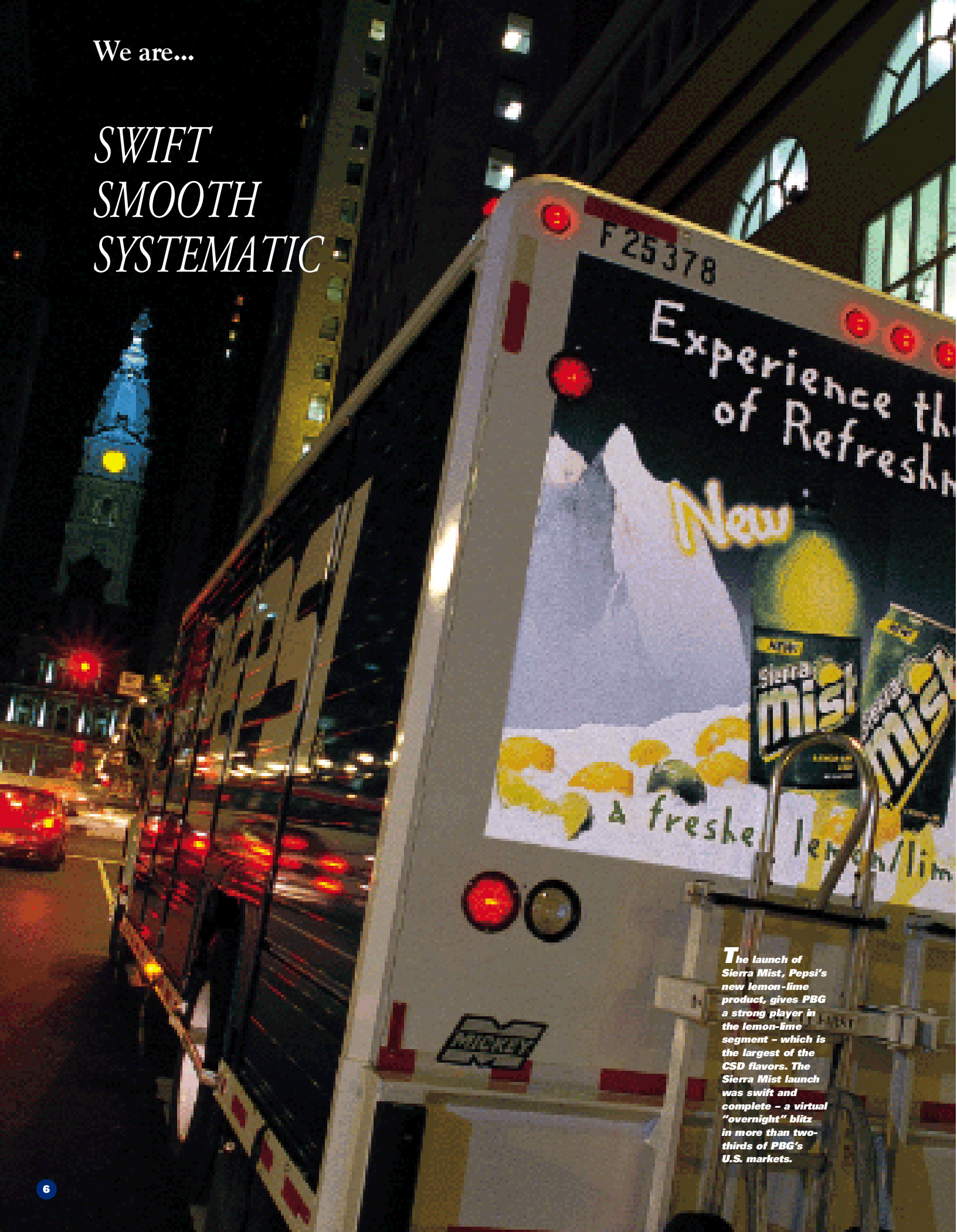
Flavor CSD: non-cola carbonated soft drinks that are fruit-flavored, such as cherry, orange, lemon-lime and root beer.

Mass merchandiser: a moderate-sized general merchandiser carrying health and beauty items and a limited grocery selection, often at discounted prices.

Take-home: products sold for at-home or future consumption.

We are...

SWIFT SMOOTH SYSTEMATIC



The launch of Sierra Mist, Pepsi's new lemon-lime product, gives PBG a strong player in the lemon-lime segment - which is the largest of the CSD flavors. The Sierra Mist launch was swift and complete - a virtual "overnight" blitz in more than two-thirds of PBG's U.S. markets.



Lisa Rice,
Merchandiser,
Norfolk, VA.

Lisa is responsible for merchandising five major large format accounts – in which she has grown volume substantially. Because of her efforts, her accounts contain more occasion-based merchandising racks than in any of the other stores in the Norfolk market.

We made the brand more visible and available by placing thousands of end-cap displays and incremental free-standing “Cool Blue” racks throughout our large format outlets – where consumers are likely to purchase water, on store perimeters and near produce and health products. We established beverage aisle standards to increase Aquafina’s presence in the water section, adding a 24-ounce multi-pack to the shelves. And we captured thirsty

shoppers by installing thousands of Aquafina checklane merchandisers and dedicated Aquafina vending machines.

Over the past two years, PBG has made its take-home beverages readily available and more convenient to purchase, through the placement of displays and racks on the store perimeter, and strategic merchandising to create visible “meal solutions” for consumers.

Our focus on the take-home segment yielded almost 30 percent growth for Aquafina in just our U.S. foodstore accounts.

“Water, water everywhere” will continue to be our direction for 2001. And we’re confident that in PBG markets, the brand that will be everywhere will be Aquafina.

A lemon-lime debut

While non-carbonated beverage growth is climbing, carbonated soft drinks remain the largest overall beverage category, comprising more than 80 percent of the total liquid refreshment beverage industry. CSDs are a household staple in the U.S., have continued to grow over the past several years, and still make up more than 70 percent of take-home beverage volume.

One of the biggest opportunities in the CSD category is in the largest flavor segment, lemon-lime. Lemon-lime has been responsible for almost 15 percent of CSD growth over the last four years, and is expected to grow substantially over the next five.

We are now positioned to capitalize on lemon-lime volume growth with the addition in 2000 of the

new Sierra Mist brand to our product portfolio, in the markets where we do not bottle 7Up. The opportunity for Sierra Mist is particularly strong in our take-home segment, where the potential volume payoff for lemon-lime growth is substantial.

In a triumphant distribution and merchandising feat that only a

More than
1,000,000
cases of Sierra Mist
were sold in the first
week of the
launch.



Large format: refers to accounts that are large chain foodstores, mass merchandisers, chain drug stores, club stores and military bases.

Checklane merchandiser (CLM): cold equipment designed for use in supermarket and foodstore checkout lanes.

End-cap display: a prominent display of soft drink products at the end of an aisle.

We are...

energetic

adventurous

Mountain Dew is the top-selling 20-ounce beverage in convenience outlets. It's also one of the most popular beverages on the slopes.

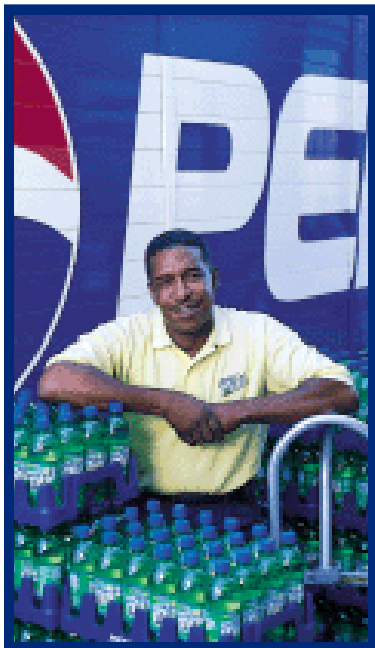
PBG's Grand Junction, Colorado Market Unit, which serves some of the top ski resorts in the U.S. including Vail and Breckenridge (pictured here), leverages the power of the brand with the Mountain Dew Vertical Challenge, a PBG-sponsored ski race in which consumers race for free.

refreshing



handful of companies in the world could accomplish, on October 14, PBG stocked store shelves and displays, coolers and cold vaults in thousands of accounts with Sierra Mist.

The effect was dramatic: massive Sierra Mist two-liter and multi-pack lobby displays, surrounded by new point-of-purchase materials, sprang up overnight. PBG gave the new product prominence by immediately placing it among our core brand lineup. The new green bottle was so swiftly integrated into end-caps and beverage aisles, that it had the marketplace presence of an established brand on Day One of the roll-out. Sampling and local promotional events introduced the new brand and created interest and excitement.



By year-end, Sierra Mist made inroads in heavy flavor markets such as Southern California – where we gained widespread distribution of our key packages and captured the market share we expected.

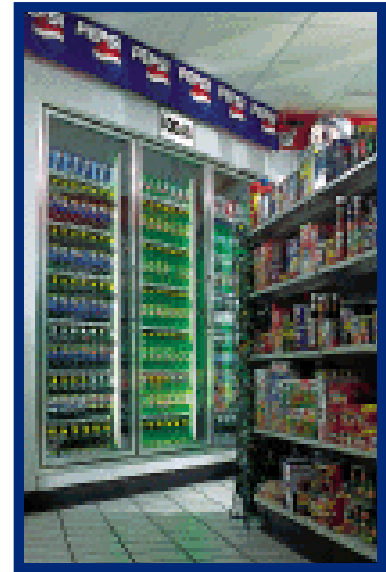
Watch for an approaching cold front

Comprising the other third of our business in 2000 was the cold drink segment, the most profitable area of our business. For the second consecutive year, we allocated about half of our capital spending for equipment to support our cold drink growth –

adding more than 140,000 net placements of vending machines, coolers and checklane merchandisers in the U.S. and Canada.

Of our existing placements, the growth of 20-ounce, full-service vending sales played a big role in enhancing

PBG products are among the biggest profit drivers for small format accounts. Here, brands Pepsi and Mountain Dew are executed in a “blue door/green door” set – in which they are allocated space in proportion to sales, to drive maximum profits.



our profit margin in 2000. The profit on the 20-ounce bottle is significantly higher than cans, and the package is growing in popularity with consumers. As we work to shift our product mix to contain more of that package, we will continue to grow our profitability.

To capitalize on the growing trend toward convenience purchases and on-the-go consumption, we continued to expand our reach beyond the traditional cold drink venues such as Convenience and Gas (C&G) stores and independent business stores (IBS). Increased placements in supermarkets, mass merchandisers and drugstores have resulted in double-digit growth of our cold single-serve sales in those channels versus 1999.

A cold, single-serve soda is the most frequently purchased consumable item in a convenience store.

Cold drink: cold products sold in retail and on-premise channels, which typically carry the highest profit margins.

Full-service vending: PBG places and stocks the vending machine, paying a commission to the account on the machine's sales.

Channel: outlets that are similar in size, and that buy, merchandise and sell soft drinks in similar ways.

We are...

satisfying

consumer-savvy

reliable

For the third consecutive year, PBG placed well over 100,000 incremental pieces of cold drink equipment across the U.S. and Canada, putting our products where thirsty consumers need them most – such as on this South Beach, Miami boardwalk.



In the Little Havana section of Miami, Florida, Pepsi products are an integral part of the daily game of dominoes.

leaders in the small format channel, hands down. Mountain

Dew and Pepsi are still the top two best-selling 20-ounce beverages respectively. The leading water is Aquafina, and the best-selling ready-to-drink tea and coffee are Lipton and Frappuccino, respectively. Then there is FruitWorks,

Nevertheless, a significant amount of our cold drink sales do occur in small format accounts – C&G and IBS outlets up and down the street – where we face increasing competition for very limited and premium space in the cold vault and near the register.

Our products are among the biggest profit drivers for small format accounts, and in 2000 we aggressively pursued the space that is proportionate to those profits. We reset thousands of cold vaults, gained miles of additional shelf space, and placed tens of thousands of

Antonio Rivodo, Pre-Sell Representative, Miami, FL.

In the two years Antonio has been with PBG, he has made quite an impact on the Miami market and on his colleagues by consistently out-performing his goals. Antonio's 2000 results included overall volume growth in the double digits, and 100 percent distribution of Aquafina and FruitWorks in his large format accounts.

register-area coolers and ice chests. We are armed with a compelling selling platform to win the battle for incremental cold space: in the U.S., the brands we sell are the market



The placement of register-area coolers, such as this one in a local Miami grocery store chain, helps PBG capture impulse sales.

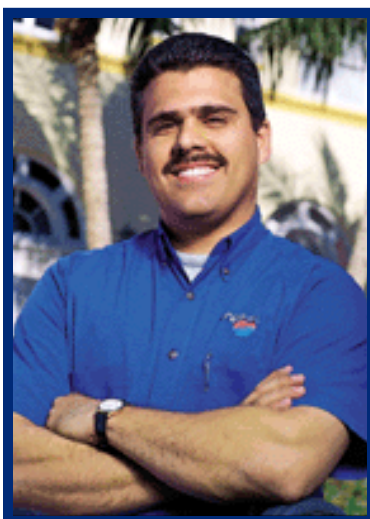
still a relatively new juice drink, but emerging as a potential market leader. The brand

grew more than 300 percent versus 1999, driven largely by increased distribution and strong consumer response.

With the juice drink category growing at a healthy rate in the U.S.,

we expect FruitWorks to be a rising star in the coming years.

PBG now has more than **1,000,000** pieces of cold drink equipment across North America.



Small format: convenience stores, gas stations and independent business store accounts.

Independent business store (IBS): non-chain, small independent foodstore.

Cold vault: refrigerated units housing an assortment of beverages for consumer purchase; typically found in Convenience and Gas stores.

We are...

BOLD

CONFIDENT PREFERRED

A "new and improved" Pepsi Challenge, conducted across PBG's U.S. markets over the summer, brought renewed excitement and interest to brand Pepsi. The Challenge was conducted at special events, such as this Massachusetts rock concert, and at the retail store level.

The PBG promise

While PepsiCo

owns the trademarks

on the products

we make and sell,

by building Pepsi

marketplace

presence, PBG

plays a big part

in delivering what

those trademarks

promise: excitement, innovation, fun,

quality and thirst-quenching satisfaction.

That is a big promise to keep. It means

implementing national and local

programs tailored to individual markets

and accounts, establishing PBG affilia-

tions with community resources and

events, and linking our business to

prestigious sports centers, professional

teams and cultural institutions.

In 2000, national Pepsi-Cola programs

such as "Choose Your Music" and

"Eat, Drink, and Be Scary," featuring

popular cartoon dog Scooby-Doo™,

and the resurrection of the Pepsi Chal-

lenge helped us keep our core CSDs

"top-of-mind" for consumers.

Execution of national Pepsi promotions, such as this summertime "Choose Your Music" program, helped PBG increase our total number of product displays – one key to capturing incremental consumer purchases. PBG increased its total number of foodstore displays by 11 percent in 2000.



The Pepsi Challenge, in particular, helped reignite excitement around the 102-year-old cola brand. This time, the revamped taste-test pitted both Pepsi versus Coke, and Pepsi ONE versus Diet Coke. Across the nation, the results proved Pepsi brands to be the preferred products. And in the process, the Pepsi Challenge provided excitement in stores and at major events across the country. In 2001 we plan to work with The Pepsi-Cola Company to

expand the Pepsi Challenge, starting earlier in the year, running it in more markets, and developing

it into an even more powerful retail merchandising event.

What's in a name?

Prestige properties – high-profile entertainment venues, professional sports teams and arenas – offer a multi-faceted platform to reach consumers. They help drive local sales through the prominent visibility of the brands, through the excitement of our products' close association with these properties, and through the design of exclusive, cross-promotions in conjunction with local retailers.

The majority of the people who took the Pepsi Challenge over the summer of 2000 preferred Pepsi.



The "Eat, Drink, and Be Scary" Halloween promotion, featuring cartoon dog Scooby-Doo™, was a joint program that cross-merchandised Pepsi beverages with Frito-Lay® salty snacks.

National promotions: promotions developed by Pepsi-Cola USA, executed across PBG markets, often customized to individual accounts' needs.

The Pepsi Challenge: a "blind" taste-test in which consumers are offered both Pepsi and Coke, and express their taste preference.

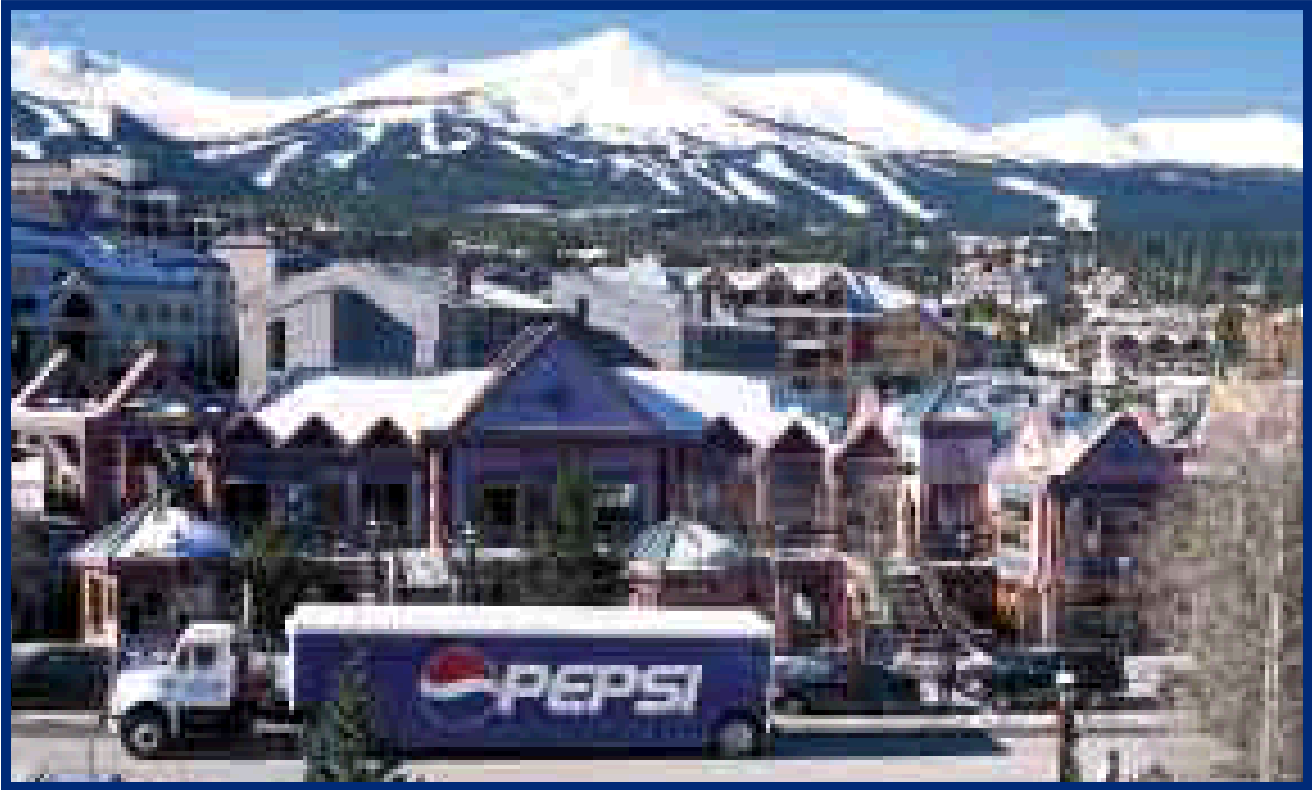
Merchandising event: an event conducted in a retail outlet to create interest and excitement, and to draw consumers to purchase a particular product.

We are...

The Pepsi Center, home to the Colorado Avalanche and the Denver Nuggets, is a Pepsi-linked prestige property that has put Pepsi in the forefront of the Denver community. As the centerpiece for numerous cross-promotions with selected Denver-area retailers, The Pepsi Center has helped drive increased beverage sales for both PBG and our local retail partners.

Photo used with permission of NHLPA



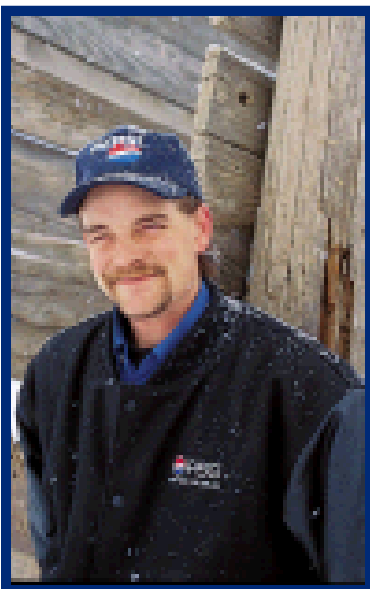


One example is our affiliation with The Pepsi Center, home to the Colorado Avalanche and the Denver Nuggets, a relationship we have used to drive brand recognition and sales. Exclusive

cross-promotions involving PBG, The Pepsi Center and the largest Denver-area foodstore chain, King Soopers, have increased PBG's community presence and driven sales for both PBG and

custom-designed coolers and vending machines bearing Pepsi Center graphics.

A PBG driver makes his way to one of the mountain lodges of the Breckenridge, Colorado ski resort, an exclusive Pepsi account.



Craig Brown, Customer Representative, Greeley, CO.

Craig, a six-year Pepsi veteran, is a top-performer in his market. He is known for the outstanding customer service that enables him to consistently exceed his sales targets. True to form, Craig surpassed his plan for volume growth in his accounts in 2000, and for the fifth year, earned his market unit's Top Gun Award, which recognizes outstanding job performance.

our retail partner.

In 2000, PBG sales in King Soopers experienced very strong growth versus prior year. Sales of our 20-ounce package in King Soopers grew almost 100 percent versus 1999, driven by the placement of

The year 2000 brought some additional big names to the PBG team, including the Detroit Tigers; the Pittsburgh Pirates; the Experience Music Project and The Space Needle in Seattle; the Space Center in Houston, the largest tourist attraction in Texas; Le Forum Pepsi in Montréal, Canada; and the hottest restaurant property in Moscow, the Starlite Diner – to name a few.

The total number of PBG foodstore displays grew by more than **11%** versus 1999.

Cross-promotions: marketing programs designed to promote sales of two or more products with similar target consumer groups.

Cold drink equipment: includes coolers, ice chests, vending machines and fountain equipment.

Prestige properties: high-profile venues such as professional arenas and tourist attractions.

We are...

Through more widespread distribution in 2000, PBG achieved record volume levels in Russia, dramatically exceeding expectations. Here, a PBG truck passes The Kremlin on route to a delivery.

M O T I V A T E D F O C U S E D F A R - R E A C H I N G

Russia: a promising frontier

Nowhere has the power of marketplace presence been more evident than in our Russia market. Through more

widespread distribution in 2000, PBG achieved record sales volume for Pepsi products in

Russia. In fact, volume more than doubled versus 1999, exceeding levels that preceded the 1998 ruble devaluation.

Big account wins, including the largest Russian airline, AeroFlot, added to our marketplace presence, and to our sales volume. So did the expansion of our popular “value line” of beverages, marketed under the Fiesta brand.

Getting our products “on the street,” in outdoor kiosks and high-traffic areas such as historic Old Arbat Street, also played a part. The co-distribution

of Pepsi and Frito-Lay® products in Russia has provided economies of scale in distribution and helped both product lines gain access to more accounts through “the Power of One” Pepsi/Frito-Lay® merchandising strength.

Per capita consumption of bottled water is also rising at a vigorous rate in Russia, positioning Aqua Minerale, the Pepsi water brand and the leading water there, for tremendous volume growth. In 2000, we expanded the Aqua Minerale line by launching a “still” version, which will help PBG capture our share of that consumption.

Stanislav Novikov, Territory Sales Manager, Moscow.

Stanislav has consistently achieved outstanding sales growth in his territory, even during the most difficult economic times in Russia. He increased his number of PBG customers in Moscow from 500 to more than 1,600 during his three years on the job. His new customers include all three domestic airports in his territory – which are now Pepsi exclusive accounts.



The tremendous growth potential of the Russian market is becoming a reality for PBG. Our results in Russia are well ahead of where we predicted we would now be, at the time of PBG’s initial public offering in 1999.

We will continue to grow our business there, gaining

momentum through increased distribution and availability of our products.

In 2000, Russia’s largest airline, AeroFlot Russian International Airline, converted to exclusive Pepsi beverage service. The company carries about five million passengers a year on a fleet of 70 planes.



“Power of One”: refers to the purchasing and marketing power achieved by the teaming of multiple products within the PepsiCo portfolio.

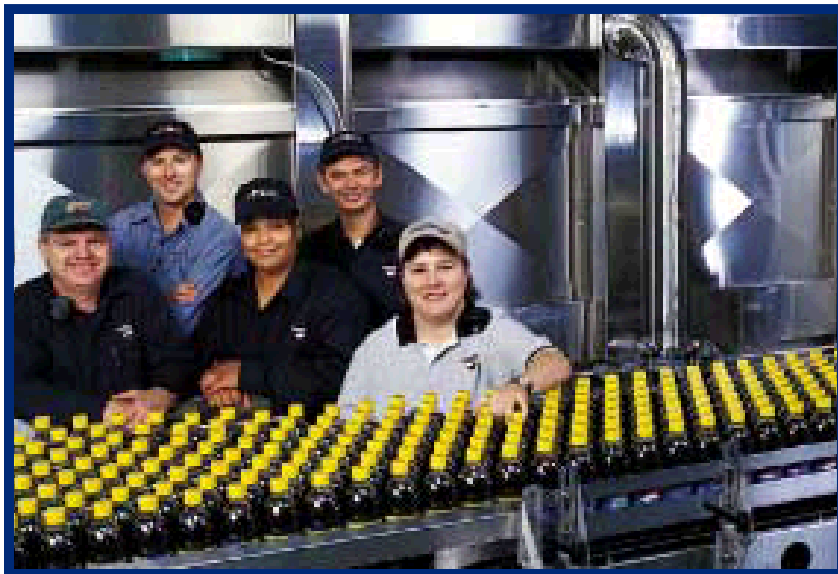
Per capita consumption: average number of beverage servings (usually measured as 8-ounce servings) consumed per person in a market or territory.

Value line: a group of products sold at an everyday low price aimed at the value-conscious consumer.

We are...

productive efficient powerful

The installation of a high-speed filler in the Mesquite, Texas plant doubled the filling capacity to 1,000 bottles per minute, while taking up less floor space. It also requires significantly less time for line change-overs.



**Mesquite, Texas
Bottle Line Team,
from left to right:
Rocky Rogers,
Mechanic;
Dempsey Crabtree,
De-Palletizer
Operator; Sharon
Edwards, Filler
Operator; Jimmy
Harris, Packaging
Area Operator;
Angie Fields, Chief
Efficiency Officer.**

**This high-per-
forming team is
capable of running
two bottling lines
simultaneously
without losing
efficiency. To-
gether, they keep
the high-speed
filler in Mesquite
running smoothly,
and have greatly
increased the
cases per hour
their lines produce.**

Investing in organizational capability

Our front-line sales team is undoubtedly our most powerful marketplace force. In 2000, we continued to reinvest in growing the capability of our field sales and marketing organization. We staffed a new field marketing leadership function – professionals across our North America Business Units who will ensure that our marketing programs are executed to achieve maximum results in our local markets.

In 2000, we launched an updated sales training program, “P.E.P.S.I.,” to give our front line a uniform, fact-based approach for selling our products and equipment. And, an ongoing sales and marketing video series, introduced in 1999, continues to be issued to more than 15,000 sales people on a monthly basis, focusing them on the specific marketplace priorities for a four-week period.

Operations

With yearly volume of more than one billion cases moving through the PBG worldwide manufacturing system, we are continually looking for opportunities to improve efficiency and productivity, investing in technology where we will see the best return. For example, the installation of a high-speed filler in the Mesquite, Texas plant was an investment that doubled bottling capacity to 1,000 bottles per minute, and improved the time required to change products on the line.

A monthly video series focuses PBG's front-line salesforce on specific marketplace priorities for a four-week period.

In 2000, a key area of investment was in Pepsi Direct, our centralized call center for on-premise sales and service, which handled nearly a billion dollars in sales this year. We also invested in

Computer Telephone Integration technology, and installed Call Center Sales software to better train our sales agents. Combined, these investments enable Pepsi Direct representatives to provide higher quality customer service and

maximize the distribution of our most profitable products.

The impact of Pepsi Direct improvements on our sales and delivery system has been overwhelmingly positive. With the

Pepsi Direct accounts grew their 20-ounce volume by more than **25%**



On-premise: outlets where consumers buy soft drinks for immediate consumption at or near the point of sale.

Front line: members of the PBG sales team who have daily, face-to-face contact with customers.

Filler: plant equipment that dispenses product into bottles and cans.

We are...

Progressive Youthful Cool

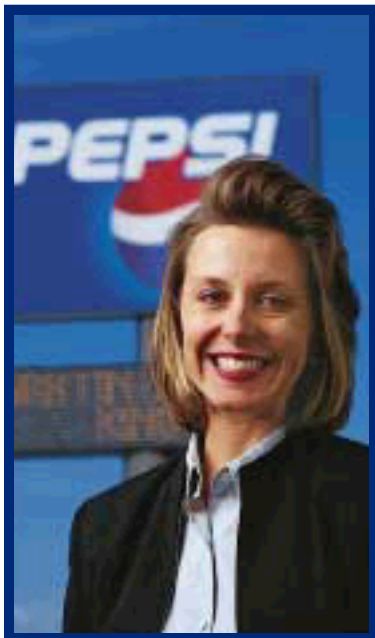
The establishment of school partnerships is one way to reach the next generation of consumers. The PBG portfolio offers students a variety of alternative beverages including Aquafina water and FruitWorks juice drinks, in addition to carbonated soft drinks.

on-premise sales call already conducted over the phone, our route drivers can complete their deliveries more efficiently, gaining more than 20 percent in productivity – the equivalent

We reached an additional **800,000** students through school partnerships in 2000.

of adding three stops per day to their routes, thereby reducing route delivery costs.

Pepsi Direct customers benefited from more efficient delivery schedules and fewer out-of-stock issues. Revenue in Pepsi Direct accounts led the PBG system with more than five percent same-store growth year-over-year. Those same accounts grew their 20-ounce volume, our most profitable package, by more than 25 percent.



PBG Goes to School

Perhaps no area of investment is as critical to our business as our efforts to engage new soft drink consumers, particularly the next generation. One way to reach this market is through school partnerships, in which we make our products available to students, while providing schools with needed financial resources. Revenue generated by these partnerships has funded scholarships, athletic programs, and other student-focused programs.

PBG's well-rounded product portfolio, which offers the brands that teens

prefer, along with a variety of best-selling alternatives to carbonated drinks, such as Aquafina and FruitWorks, has helped us form successful school partnerships. So has our history of strong community relations and youth

activity sponsorships. In 2000, school partnerships gave us the opportunity to reach an additional 800,000 of

PBG customer representatives don't just deliver soda: they are company ambassadors who collectively represent PBG in thousands of customer interactions every week.



our younger consumers, while helping to support the educational objectives of their schools.

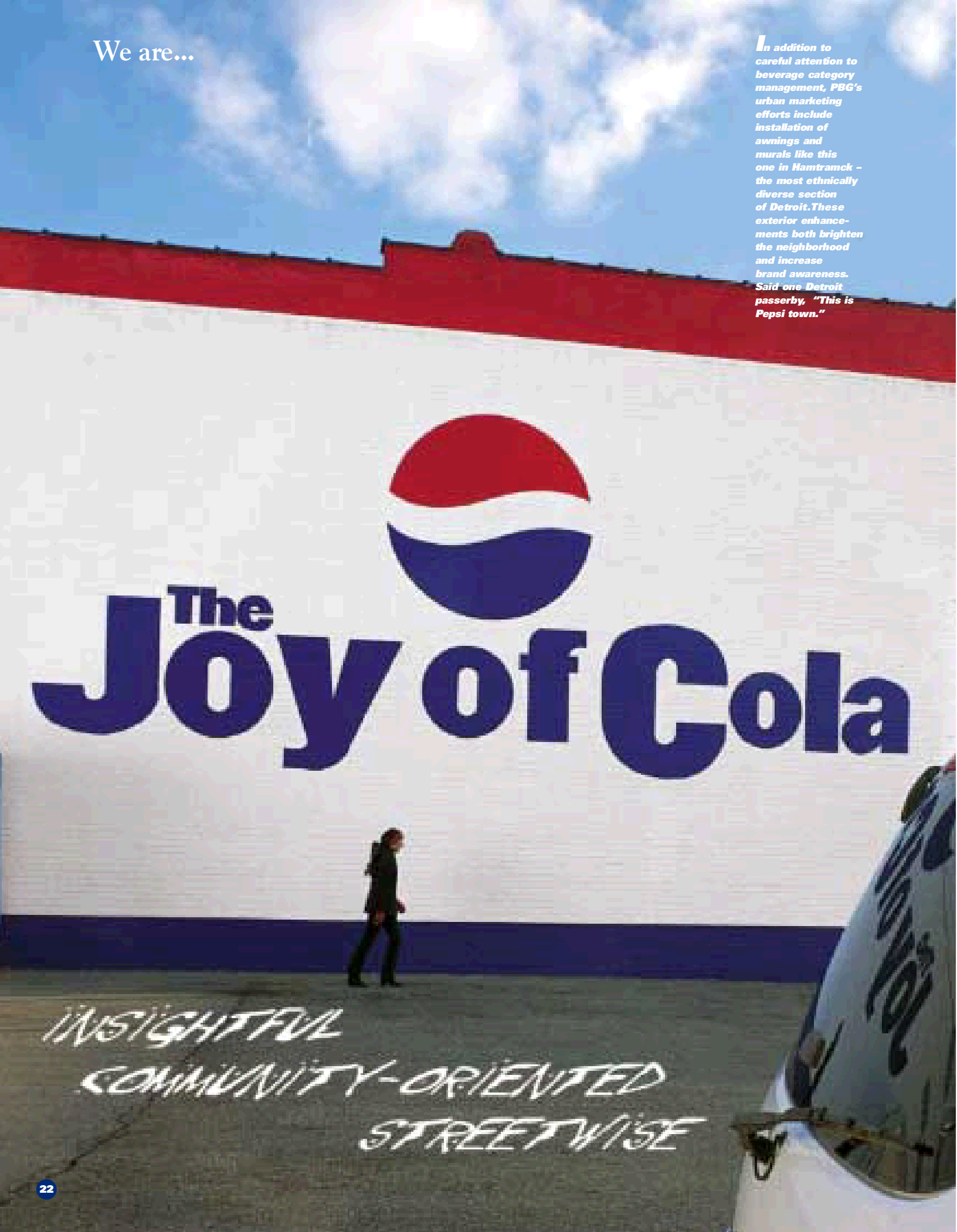
Soda in the City

The wave of the future is not solely in our schools. In 2000, PBG targeted U.S. urban community development as a key investment, aiming to be the preferred beverage supplier to urban retailers and consumers. Over the next decade, urban and ethnic consumers will contribute most of the population growth in the top ten U.S. markets, posing a long-term growth opportunity that we began to systematically pursue in 2000.

Recognizing that urban consumers and business owners – who span ethnic backgrounds and generations – have distinct lifestyles and beverage preferences, PBG embarked on a formal program to better meet their needs and tastes. It included research

We are...

In addition to careful attention to beverage category management, PBG's urban marketing efforts include installation of awnings and murals like this one in Hamtramck - the most ethnically diverse section of Detroit. These exterior enhancements both brighten the neighborhood and increase brand awareness. Said one Detroit passerby, "This is Pepsi town."



The Joy of Cola

INSIGHTFUL
COMMUNITY-ORIENTED
STREETWISE



Jesse Peterson, Pre-Sell Representative, Detroit, MI.

Jesse handles the beverage needs of small format accounts throughout the Hamtramck section of Detroit. As part of PBG's urban marketing efforts in 2000, Jesse grew bottle and can volume in his urban territory by more than 50 percent. Says Jesse, "My goal is to at least double the results I had the year before. Anything after that is gravy."

to find the beverages they preferred, and the city's streets were brightened by bright blue Pepsi awnings and colorful neon signage. Urban marketing gives PBG not just the chance to

on ethnic consumer shopping patterns and the dynamics of urban business; community relations planning; the development of marketing tools designed to enhance urban communities; and a targeted advertising strategy. Ultimately, our efforts are all about cultivating customer relationships and helping local businesses – many of which are "mom and pop" operations – thrive.

In 2000, we tested our urban marketing program in a handful of cities, including Detroit and parts

of Los Angeles. Our efforts proved successful for PBG, business owners and the community as a whole.

The American European Market, a Detroit grocery outlet targeted for urban marketing, grew Pepsi revenue almost 70 percent and volume nearly 60 percent in 2000. PBG Key Account Manager Chris Zebari (left), and store owner Gina Sinadinovski are pleased with the results.

In inner-city Detroit, for example, the individual stores where we implemented

In the Detroit stores targeted for urban marketing, Pepsi volume grew more than **50%** versus 1999.

our urban marketing program grew Pepsi volume more than 50 percent, and revenue nearly 70 percent

on average, versus 1999. On a broader scale, the two city zones targeted for urban development realized average Pepsi volume growth of about 80 percent since the program's inception.

Downtown consumers were more likely

grow our own business, but to enhance and contribute to the communities in which we operate – two reasons why PBG has targeted 13 additional major urban centers for future development.

Another powerful, profitable year is behind us, but even more promising things are ahead. We have the insights, strategies and executional capability to capitalize on the opportunities of the new millennium. We are swift, bold, fiercely competitive... and unstoppable.



Pre-sell: sales system in which the retail outlet is contacted to obtain an order in advance of delivery.

Urban marketing: development of marketing and merchandising plans and tools designed specifically to grow sales and brand presence in city communities.

"Mom and Pop" store: small, independently owned foodstore/grocery retailer often run by a family.

From left to right:

Thomas W. Jones, 51, was elected to PBG's Board in March 1999. Mr. Jones is the Chairman and CEO, Global Investment Management and Private Banking Group, for Citigroup. He also is the Co-Chairman and CEO of SSB Citi Asset Management Group, a position he assumed in October 1998.

John T. Cahill, 43, was elected to PBG's Board in January 1999. He is our President and Chief Operating Officer and has been designated to succeed Mr. Weatherup as PBG's Chief Executive Officer in late 2001. Mr. Cahill served as our Executive Vice President and Chief Financial Officer prior to becoming President and Chief Operating Officer.

Susan D. Kronick, 49, was elected to PBG's Board in March 1999. She has been Chairman and CEO of Burdines, a division of Federated Department Stores, since June 1997. Prior to that she was President of Federated's Rich's/Lazarus/Goldsmith's division from 1993 to 1997.



From left to right:

Barry H. Beracha, 59, was elected to PBG's Board in March 1999. He has been the Chairman of the Board and CEO of The Earthgrains Company since 1993. Earthgrains was formerly part of Anheuser-Busch Companies, where Mr. Beracha served from 1967 to 1996.

Craig E. Weatherup, 55, was elected to PBG's Board in January 1999. He has been Chairman of the Board and CEO of PBG since March 1999.

Karl M. von der Heyden, 64, was elected to PBG's Board in March 1999. Mr. von der Heyden recently retired from both the PBG Board and PepsiCo, Inc. He had been Vice Chairman of PepsiCo, Inc. since September 1996.

Margaret D. Moore, 53, (not pictured) was elected to PBG's Board in January 2001, replacing Mr. von der Heyden. Ms. Moore has been Senior Vice President of Human Resources of PepsiCo since the end of 1999. Prior to that, she was PBG's Senior Vice President and Treasurer.



From left to right:

Robert F. Sharpe, Jr., 49, was elected to PBG's Board in March 1999. He is the Senior Vice President, Public Affairs, General Counsel and Secretary of PepsiCo.

Thomas H. Kean, 65, was elected to PBG's Board in March 1999. Mr. Kean has been the President of Drew University since 1990 and was the Governor of the State of New Jersey from 1982 to 1990.

Linda G. Alvarado, 48, was elected to PBG's Board in March 1999. She is the President and CEO of Alvarado Construction, Inc., a general contracting firm specializing in commercial, industrial, environmental and heavy engineering projects, a position she assumed in 1976.

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OVERVIEW

In 2000, our second year as an independent public company, The Pepsi Bottling Group, Inc. (collectively referred to as "PBG," "we," "our" and "us") has made substantial progress towards our key objectives – improving the economics of our take-home business, aggressively growing our high-margin cold drink volume and sharply improving our international business. Specifically, our efforts in these areas have generated the following outstanding results:

- We delivered 16% constant territory EBITDA growth in 2000.
- We increased our return on invested capital by 1.6 percentage points to 7.6% in 2000.
- We delivered \$1.53 in diluted earnings per share, an increase of \$0.82 over 1999 after adjusting 1999 for the number of shares outstanding to reflect our initial public offering and excluding unusual charges and credits. Diluted earnings per share in 2000 included a \$0.26 favorable impact from a change in the estimated useful lives of certain categories of assets and a \$0.05 favorable impact from the inclusion of an additional week in our 2000 fiscal year.
- We generated \$273 million of operating free cash flow in 2000, an improvement of \$112 million over the prior year.

The following discussion and analysis covers the key drivers behind our success in 2000 and is broken down into five major sections. The first two sections provide an overview and focus on items that affect the comparability of historical or future results. The next two sections provide an analysis of our results of operations and liquidity and financial condition. The last section contains a discussion of our market risks and cautionary statements. The discussion and analysis throughout management's financial review should be read in conjunction with the Consolidated Financial Statements and the related accompanying notes.

Constant Territory

We believe that constant territory performance results are the most appropriate indicators of operating trends and performance, particularly in light of our stated intention of acquiring additional bottling territories, and are consistent with industry practice. Constant territory operating results are derived by adjusting current year results to exclude significant current year acquisitions and adjusting prior year results to include the results of significant prior year acquisitions as if they had

occurred on the first day of the prior fiscal year. In addition, 2000 constant territory results exclude the impact from an additional week in our fiscal year (“53rd week”), which occurs every five or six years as our fiscal year ends on the last Saturday in December. Constant territory results also exclude any unusual impairment and other charges and credits.

Use of EBITDA

EBITDA, which is computed as operating income plus the sum of depreciation and amortization, is a key indicator management and the industry use to evaluate operating performance. It is not, however, required under generally accepted accounting principles and should not be considered an alternative to measurements required by GAAP such as net income or cash flows. In addition, EBITDA excludes the impact of the non-cash portion of the unusual impairment and other charges and credits discussed on the next page and in Note 4 to the Consolidated Financial Statements.

ITEMS THAT AFFECT HISTORICAL OR FUTURE COMPARABILITY

Asset Lives

At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in Note 3 to the Consolidated Financial Statements, lowered total depreciation cost by approximately \$69 million, or \$0.26 per diluted share.

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal year 2000 consisted of 53 weeks while fiscal years 1999 and 1998 consisted of 52 weeks. The following table illustrates the approximate dollars and percentage points of growth that the extra week contributed to our 2000 operating results:

dollars in millions, except per share amounts	Percentage	
	Dollars	Points
Volume	N/A	2
Net Revenues	\$ 113	2
EBITDA	\$ 14	2
Diluted Earnings per Share	\$0.05	5

Initial Public Offering

PBG was incorporated in Delaware in January 1999 and, prior to our formation, we were an operating unit of PepsiCo, Inc. (“PepsiCo”). We became a public company through an initial public offering on March 31, 1999. Our initial public offering consisted of 100,000,000 shares of common stock sold to the public, equivalent to 65% of our outstanding common stock, leaving PepsiCo the owner of the remaining 35% of outstanding common stock. PepsiCo’s ownership has increased to 37.8% of our outstanding common stock at December 30, 2000 as a result of net repurchases of approximately 10 million shares under our share repurchase program, which began in October 1999. PepsiCo also owns 100% of our outstanding Class B common stock, together representing 46.0% of the voting power of all classes of our voting stock. In addition, PepsiCo owns 7.1% of the equity of Bottling Group, LLC, our principal operating subsidiary, giving PepsiCo economic ownership of 42.2% of our combined operations at December 30, 2000. We fully consolidate the results of Bottling Group, LLC and present PepsiCo’s share as minority interest in our Consolidated Financial Statements.

For the periods prior to our initial public offering we prepared our Consolidated Financial Statements as a “carve-out” from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. Certain costs reflected in the Consolidated Financial Statements may not necessarily be indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity for all periods presented. These costs include an allocation of PepsiCo’s corporate overhead and interest expense, and income taxes:

- We included corporate overhead related to PepsiCo’s corporate administrative functions based on a specific identification of PepsiCo’s administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo’s consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.
- We allocated \$3.3 billion of PepsiCo’s debt to our business and charged interest expense on this debt using PepsiCo’s weighted-average interest rate. Once we issued \$3.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

- We reflected income tax expense in the Consolidated Financial Statements as if we had actually filed a separate income tax return.

The amounts, by year, of the historical allocations described above are as follows:

dollars in millions	1999*	1998
Corporate overhead expense	\$ 3	\$ 40
Interest expense	\$28	\$210
PepsiCo's weighted-average interest rate	5.8%	6.4%

*Prior to our initial public offering.

Unusual Impairment and Other Charges and Credits

Our operating results were affected by the following unusual charges and credits in 1999 and 1998:

dollars in millions	1999	1998*
Non-cash compensation charge	\$ 45	\$ —
Vacation policy change	(53)	—
Asset impairment and restructuring charges	(8)	222
	\$(16)	\$222
After minority interest and income taxes	\$ (9)	\$218

*Does not include the tax settlement with the Internal Revenue Service discussed on this page.

Non-cash Compensation Charge

In connection with the completion of our initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by our employees. As a result, we incurred a \$45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

Vacation Policy Change

As a result of changes to our employee benefit and compensation plans in 1999, employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested at the beginning of each year. As a result of this change, we reversed an accrual of \$53 million into income in 1999.

Asset Impairment and Restructuring Charges

In the fourth quarter of 1998, we recorded \$222 million of charges relating to the following:

- A charge of \$212 million for asset impairment of \$194 million and other charges of \$18 million related to restructuring our Russian operations.
- A charge of \$10 million for employee-related and other costs, mainly relocation and severance, resulting from the separation of Pepsi-Cola bottling and concentrate organizations.

In the fourth quarter of 1999, \$8 million of the remaining 1998 restructuring reserves was reversed into income, as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

Tax Settlement with the Internal Revenue Service

In 1998, we settled a dispute with the Internal Revenue Service regarding the deductibility of the amortization of acquired franchise rights, resulting in a \$46 million tax benefit.

Comparability of our operating results may also be affected by the following:

Concentrate Supply

We buy concentrate, the critical flavor ingredient for our products, from PepsiCo, its affiliates and other brand owners who are the sole authorized suppliers. Concentrate prices are typically determined annually.

In February 2000, PepsiCo announced an increase of approximately 7% in the price of U.S. concentrate. PepsiCo has recently announced a further increase of approximately 3%, effective February 2001. Amounts paid or payable to PepsiCo and its affiliates for concentrate were \$1,507 million, \$1,418 million and \$1,283 million in 2000, 1999 and 1998, respectively.

Bottler Incentives

PepsiCo and other brand owners provide us with various forms of marketing support. The level of this support is negotiated annually and can be increased or decreased at the discretion of the brand owners. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media and advertising support. Direct marketplace support is primarily funding by PepsiCo and

other brand owners of sales discounts and similar programs, and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment and is recorded as a reduction to selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses.

The total bottler incentives we received from PepsiCo and other brand owners were \$566 million, \$563 million and \$536 million for 2000, 1999 and 1998, respectively. Of these amounts, we recorded \$277 million, \$263 million and \$247 million for 2000, 1999 and 1998, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our total bottler incentives in each of the three years, with the balance received from the other brand owners.

Our Investment in Russia

In recent years, we have invested in Russia to build infrastructure and to fund start-up manufacturing and distribution costs. During the first half of 1998, our volumes were growing at approximately 50% over 1997 levels. However, following the August 1998 devaluation of the ruble, we experienced a significant drop in demand, resulting in lower net revenues and increased operating losses. As a result of the economic crisis and the under-utilization of assets, we incurred a charge of \$212 million in the fourth quarter of 1998 to write down our assets and reduce our fixed-cost structure.

The economic conditions in 2000 and 1999 have been more stable, with 2000 volumes and revenues exceeding levels achieved immediately prior to the devaluation. We have focused on developing alternative means of leveraging our existing asset base while significantly reducing costs. In this regard, we have increased distribution of Frito-Lay® snack products, which we began in 1999, throughout all of Russia, except Moscow. We have also grown our value brand beverage business (Fiesta), which was introduced in 1999, and increased distribution of our water products.

We anticipate that our Russian operations will continue to incur losses and require cash to fund operations for at least the fiscal year 2001. However, capital requirements will be minimal because our existing infrastructure is adequate for current operations. Cash requirements for investing activities and to fund operations were \$17 million, \$45 million and \$156 million in 2000, 1999 and 1998, respectively. Volume in Russia accounted for 2%, 1% and 2% of our total volume in 2000, 1999 and 1998, respectively. We will continue to review our Russian operations on a regular basis and to consider changes in our distribution systems and other operations as circumstances dictate.

Employee Benefit Plan Changes

We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2000.

In 1999, our Board of Directors approved a matching company contribution to our 401(k) plan, that began in 2000. The match is dependent upon the employee's contribution and years of service. The fiscal year 2000 matching company contribution was approximately \$15 million.

In the fourth quarter of 1999 we recognized a \$16 million compensation charge related to full-year 1999 performance. This expense was one-time in nature and was for the benefit of our management employees, reflecting our successful operating results as well as providing certain incentive-related features.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

in millions, except per share data

	2000	1999	1998
Net Revenues	\$7,982	\$7,505	\$7,041
Cost of sales	4,405	4,296	4,181
Gross Profit	3,577	3,209	2,860
Selling, delivery and administrative expenses	2,987	2,813	2,583
Unusual impairment and other charges and credits	—	(16)	222
Operating Income	590	412	55
Interest expense, net	192	202	221
Foreign currency loss	1	1	26
Minority interest	33	21	—
Income (Loss) Before Income Taxes	364	188	(192)
Income tax expense (benefit)	135	70	(46)
Net Income (Loss)	\$ 229	\$ 118	\$ (146)
Basic Earnings (Loss) Per Share	\$ 1.55	\$ 0.92	\$ (2.65)
Weighted-Average Shares Outstanding	147	128	55
Diluted Earnings (Loss) Per Share	\$ 1.53	\$ 0.92	\$ (2.65)
Weighted-Average Shares Outstanding	149	128	55

See accompanying notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

	Fiscal 2000 vs.1999*		Fiscal 1999 vs.1998*	
	Reported Change	Constant Territory Change	Reported Change	Constant Territory Change
EBITDA	18%	16%	25%	13%
Volume	3%	1%	4%	0%
Net Revenue per Case	3%	3%	3%	3%

* Fiscal year 2000 consisted of 53 weeks while fiscal years 1999 and 1998 consisted of 52 weeks.

EBITDA

Reported EBITDA was \$1,061 million in 2000, representing an 18% increase over 1999, with the 53rd week contributing approximately 2 percentage points of the growth. Constant territory EBITDA was 16% higher than 1999 driven by continued pricing improvements in our take-home segment, mix shifts to higher-margin cold drink volume, favorable cost of sales trends and improved results outside the U.S., particularly in Russia.

Reported EBITDA was \$901 million in 1999, representing a 25% increase over 1998. On a constant territory basis, EBITDA growth of 13% was driven by a strong pricing environment particularly in the U.S. take-home segment, solid volume growth in our higher-margin cold drink segment and reduced operating losses in Russia.

Volume

Our reported worldwide raw case volume grew 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. Worldwide constant territory volume grew 1% in 2000 with flat volume growth from our U.S. operations and 7% growth from our operations outside the U.S. In the U.S., volume results reflected growth in our cold drink segment and the favorable impact of the launch of Sierra Mist in the fourth quarter of 2000, offset by declines in our take-home business. Our cold drink trends reflect our successful placement of additional cold drink equipment in the U.S. Take-home volume remained lower for the year reflecting the effect of our price increases in that segment. Our volume growth outside the U.S. was led by Russia where we have reestablished brand Pepsi, introduced our own line of value brand beverage products (Fiesta) and continued to increase distribution of our water products. Partially offsetting the growth in Russia were volume declines in Canada resulting from significant take-home price increases in that country. Raw case volume is defined as physical cases sold, regardless of the volume contained in those cases.

Our worldwide raw case volume grew 4% on a reported basis in 1999, and was flat on a constant territory basis. In the U.S., constant territory volume improved 1% as growth in our cold drink segment was offset by declines in the take-home business as we raised prices in the take-home segment. Outside the U.S., our constant territory volumes declined 3%, driven by the continued impact of the economic conditions in Russia that began to deteriorate in August 1998 with the devaluation of the ruble, partially offset by improved volumes in Spain and Canada.

Net Revenues

Reported net revenues were \$7,982 million in 2000, a 6% increase over the prior year, with the 53rd week contributing approximately 2 percentage points of the growth. On a constant territory basis, worldwide net revenues grew more than 4%, driven by a 1% volume increase and a 3% increase in net revenue per case. Constant territory net revenue per case growth was driven by the U.S., which grew 6%, reflecting higher pricing, particularly in our take-home segment, and an increased mix of higher-revenue cold drink volume. These results were partially offset by account level investment spending aimed at sustainable Aquafina and cold drink inventory gains in the marketplace. Outside the U.S., constant territory net revenues were down 1%, reflecting a 7% increase in volume offset by an 8% decrease in net revenue per case. Excluding the negative impact from currency translations, net revenue per case decreased 1% outside the U.S. and increased 4% worldwide.

On a reported basis, net revenues were \$7,505 million in 1999, representing a 7% increase over 1998. On a constant territory basis, net revenues increased 3%, with increases in the U.S. offsetting a revenue decline outside the United States. U.S. constant territory growth of 4% was driven by a 1% increase in volume and a 3% increase in net revenue per case. The net revenue per case increase reflects strong pricing, led by advances in the take-home segment and an increased mix of higher-revenue cold drink volume. Volume declines partially offset the revenue impact of higher take-home pricing. Outside the U.S., revenue declines of 5% were driven by the impact of the August 1998 ruble devaluation in Russia. On a worldwide basis, constant territory net revenue per case was up 3%.

Cost of Sales

Cost of sales increased \$109 million, or 3% in 2000, with the 53rd week contributing approximately 2 percentage points of the growth. On a per case basis, cost of sales was essentially flat in 2000. Included in current year costs are the favorable impacts from the change in our estimated useful lives of manufacturing assets, which totaled \$34 million in 2000 and an approximate 1 percentage point favorable impact from currency translations. Excluding the effects of the change in asset lives and currency translations, cost of sales on a per case basis was more than 1% higher, as higher U.S. concentrate costs were partially offset by favorable packaging and sweetener costs, favorable country mix and efficiencies in production.

Cost of sales increased \$115 million, or 3% in 1999, but was essentially flat on a per case basis as higher concentrate prices were offset by lower packaging costs and the favorable effect of renegotiating our raw material contracts in Russia to a ruble denomination instead of U.S. dollars.

Selling, Delivery and Administrative Expenses

Selling, delivery and administrative expenses increased \$174 million, or 6% in 2000, with the 53rd week contributing approximately 1 percentage point of the growth. Included in selling, delivery and administrative expenses are the favorable impacts from the change in estimated useful lives of certain selling and delivery assets, which lowered depreciation expense by \$35 million, and currency translations, which lowered selling, delivery and administrative expense growth by approximately 1 percentage point in 2000. Excluding the effects of the change in asset lives, currency translations and the inclusion of the 53rd week, selling, delivery and administrative expenses were approximately 7% higher in 2000. Driving this increase were higher selling and delivery costs primarily reflecting our significant investment in our U.S. cold drink infrastructure that began in 1999 and continued through 2000. Additional headcount, delivery routes and depreciation expense resulted from this initiative. In addition, higher performance-related compensation costs contributed to the cost growth. Growth in administrative costs associated with the company matching contribution for our new 401(k) plan in 2000 was offset by a one-time, \$16 million compensation charge in 1999.

Selling, delivery and administrative expenses grew \$230 million, or 9% in 1999, driven by acquisitions and higher selling and delivery costs, which resulted from our significant investment in our U.S. and Canadian cold drink infrastructure. Higher advertising and marketing spending was offset by reduced operating costs in Russia, as our cost structure benefited from our fourth quarter 1998 restructuring actions. Administrative costs were impacted by increased performance-related compensation due to our stronger operating results in 1999 compared to 1998 including a \$16 million one-time compensation charge, which was related to full-year 1999 performance. Excluding the impact of performance-related compensation, our administrative costs were relatively flat year-over-year.

Interest Expense, net

Net interest expense decreased by \$10 million to \$192 million in 2000, due primarily to increased interest income consistent with our increase in cash and cash equivalents in 2000 and reduced levels of debt outside the U.S.

Net interest expense decreased by \$19 million to \$202 million in 1999, due primarily to a lower average interest rate on our \$3.3 billion of long-term debt. Our average interest rate decreased from 6.4% in 1998, when we used PepsiCo's average interest rate, to 6.1% in 1999 when we issued our own debt in the first quarter. Our lower 1999 interest rates reflect market conditions at the time we issued our debt. In addition, we had reduced levels of external debt outside the U.S.

Foreign Currency Losses

Our foreign currency losses primarily arise from our operations in Russia. Since Russia is considered a highly inflationary economy for accounting purposes, we are required to remeasure the net monetary assets of our Russian operations in U.S. dollars and reflect any resulting gain or loss in the Consolidated Statements of Operations. The August 1998 devaluation of the Russian ruble resulted in significant foreign currency losses in 1998. In 2000 and 1999, foreign currency losses have been minimized due to a more stable ruble exchange rate.

Minority Interest

Minority interest represents PepsiCo's 7.1% ownership in our principal operating subsidiary, Bottling Group, LLC. The increased minority interest expense in 2000 reflects higher Bottling Group, LLC earnings in 2000.

Income Tax Expense (Benefit)

Our full-year effective tax rate for 2000 was 37.0%, compared to 37.4% in 1999. Our effective tax rate, excluding unusual impairment and other charges and credits, would have been 37.0% and 38.0% in 2000 and 1999, respectively. The one point decrease is primarily due to the reduced impact of fixed non-deductible expenses on higher pre-tax income in 2000, partially offset by the decreased favorable impact of our foreign results.

Our full-year effective tax rate in 1999 was an expense of 37.4% compared with a benefit of 24.0% in 1998. In 1999, the impact of non-deductible goodwill and other expenses on the effective tax rate was offset in part by lower effective tax rates in our markets outside the U.S., and by higher overall pre-tax income. In 1998, we settled a dispute with the Internal Revenue Service regarding the deductibility of the amortization of acquired franchise rights, resulting in a \$46 million tax benefit in the fourth quarter. Also in 1998, our effective tax rate was increased due to the unusual charges relating to the Russia restructuring and asset write-offs for which we did not recognize a tax benefit. Our effective tax rate, excluding the unusual impairment and other charges and credits, would have been 38.0% and 0.9% in 1999 and 1998, respectively.

Earnings Per Share

shares in millions	2000	1999	1998
Basic earnings (loss) per share on			
reported net income (loss)	\$1.55	\$0.92	\$(2.65)
Average shares outstanding	147	128	55
Diluted earnings (loss) per share on			
reported net income (loss)	\$1.53	\$0.92	\$(2.65)
Average shares outstanding	149	128	55

Dilution

Diluted earnings per share reflect the potential dilution that could occur if stock options from our stock compensation plan were exercised and converted into common stock that would then participate in net income. Our significant share price improvement during 2000 has resulted in \$0.02 per share of dilution.

Average Shares Outstanding

The increase in shares outstanding over the last three years reflects our initial public offering in March of 1999 and our share repurchase program. In 1999, immediately preceding our initial public offering, and in 1998 we had 55 million shares of common stock outstanding. In connection with the offering, we sold 100 million shares of common stock to the public. Since our initial public offering, shares outstanding reflect the effect of our share repurchase program, which began in October 1999 when our Board of Directors authorized the repurchase of up to 10 million shares of our common stock. In the second quarter of 2000, our Board of Directors authorized the repurchase of an additional 5 million shares. Net share repurchases were approximately 5 million in both 2000 and 1999, respectively.

Pro Forma Earnings per Share

The table below sets forth earnings per share adjusted for the initial public offering and the impact of our unusual impairment and other charges and credits as previously discussed. In 1999, we assumed 155 million shares were outstanding from the beginning of the year and further adjusted shares outstanding for our share repurchase program. Similarly, the 1998 diluted earnings per share amounts in the table below have been adjusted assuming 155 million shares had been outstanding for the entire fiscal year.

shares in millions	2000*	1999	1998
Diluted earnings (loss) per share			
on reported net income (loss)	\$1.53	\$ 0.76	\$(0.94)
Unusual impairment and other			
charges and credits	—	(0.05)	1.41
Tax settlement	—	—	(0.30)
Adjusted diluted earnings per share	\$1.53	\$ 0.71	\$ 0.17
Assumed diluted shares			
outstanding	149	155	155

*Includes the favorable impacts from the change in asset lives of \$0.26 and the addition of the 53rd week of \$0.05. See Note 3 to the Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T S O F C A S H F L O W S

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

dollars in millions

	2000	1999	1998
Cash Flows – Operations			
Net income (loss)	\$ 229	\$ 118	\$ (146)
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Depreciation	340	374	351
Amortization	131	131	121
Non-cash unusual impairment and other charges and credits	—	(32)	194
Non-cash portion of tax settlement	—	—	(46)
Deferred income taxes	—	(27)	47
Other non-cash charges and credits, net	176	141	88
Changes in operating working capital, excluding effects of acquisitions:			
Accounts receivable	13	(42)	46
Inventories	11	3	(25)
Prepaid expenses and other current assets	(97)	4	8
Accounts payable and other current liabilities	28	48	(13)
Net change in operating working capital	(45)	13	16
Net Cash Provided by Operations	831	718	625
Cash Flows – Investments			
Capital expenditures	(515)	(560)	(507)
Acquisitions of bottlers	(26)	(176)	(546)
Sales of property, plant and equipment	9	22	31
Other, net	(52)	(19)	(24)
Net Cash Used for Investments	(584)	(733)	(1,046)
Cash Flows – Financing			
Short-term borrowings – three months or less	12	(58)	52
Proceeds from third-party debt	—	3,260	50
Replacement of PepsiCo allocated debt	—	(3,300)	—
Net proceeds from initial public offering	—	2,208	—
Payments of third-party debt	(9)	(90)	(72)
Minority interest distribution	(3)	—	—
Dividends paid	(12)	(6)	—
Treasury stock transactions, net	(103)	(90)	—
Increase (decrease) in advances from PepsiCo	—	(1,750)	340
Net Cash (Used for) Provided by Financing	(115)	174	370
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4)	(5)	1
Net Increase (Decrease) in Cash and Cash Equivalents	128	154	(50)
Cash and Cash Equivalents – Beginning of Year	190	36	86
Cash and Cash Equivalents – End of Year	\$ 318	\$ 190	\$ 36
Supplemental Cash Flow Information			
Non-Cash Investing and Financing Activities:			
Liabilities incurred and/or assumed in conjunction with acquisitions of bottlers	\$ 9	\$ 65	\$ 161

See accompanying notes to Consolidated Financial Statements.

C O N S O L I D A T E D B A L A N C E S H E E T S

December 30, 2000 and December 25, 1999

in millions, except per share data

	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 318	\$ 190
Accounts receivable, less allowance of \$42 and \$48 in 2000 and 1999, respectively	796	832
Inventories	281	293
Prepaid expenses and other current assets	189	183
Total Current Assets	1,584	1,498
Property, plant and equipment, net	2,358	2,218
Intangible assets, net	3,694	3,819
Other assets	100	89
Total Assets	\$7,736	\$7,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 941	\$ 929
Short-term borrowings	26	23
Total Current Liabilities	967	952
Long-term debt	3,271	3,268
Other liabilities	474	385
Deferred income taxes	1,072	1,178
Minority interest	306	278
Total Liabilities	6,090	6,061
Shareholders' Equity		
Common stock, par value \$.01 per share:		
authorized 300 shares, issued 155 shares	2	2
Additional paid-in capital	1,736	1,736
Retained earnings	355	138
Accumulated other comprehensive loss	(254)	(223)
Treasury stock: 10 shares and 5 shares in 2000 and 1999, respectively	(193)	(90)
Total Shareholders' Equity	1,646	1,563
Total Liabilities and Shareholders' Equity	\$7,736	\$7,624

See accompanying notes to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Liquidity Prior to our Separation from PepsiCo and our Initial Public Offering

We financed our capital investments and acquisitions through cash flow from operations and advances from PepsiCo prior to our separation from PepsiCo and our initial public offering. Under PepsiCo's centralized cash management system, PepsiCo deposited sufficient cash in our bank accounts to meet our daily obligations, and withdrew excess funds from those accounts. These transactions are included in increase (decrease) in advances from PepsiCo in our Consolidated Statements of Cash Flows.

Liquidity After our Initial Public Offering

Subsequent to our initial public offering, we have financed our capital investments and acquisitions primarily through cash flow from operations. We believe that our future cash flow from operations and borrowing capacity will be sufficient to fund capital expenditures, acquisitions, dividends and other working capital requirements.

Financing Transactions

On February 9, 1999, \$1.3 billion of 5½% senior notes and \$1.0 billion of 5½% senior notes were issued by Bottling Group, LLC and are guaranteed by PepsiCo. On March 8, 1999, we issued \$1 billion of 7% senior notes, which are guaranteed by Bottling Group, LLC. During the second quarter of 1999, we executed an interest rate swap converting 3% of our fixed-rate debt to floating-rate debt.

On March 31, 1999, we offered 100,000,000 shares of PBG common stock for sale to the public in an underwritten initial public offering generating \$2.2 billion of net proceeds.

The proceeds from the above financing transactions were used to repay obligations to PepsiCo and fund acquisitions.

In April 1999, we entered into a \$500 million commercial paper program that is supported by a credit facility. The credit facility consists of two \$250 million components, one of which expires in May 2001 and the other of which expires in April 2004. There were no borrowings outstanding under this program at December 30, 2000 or December 25, 1999.

Capital Expenditures

We have incurred and will require capital for ongoing infrastructure, including acquisitions and investments in developing market opportunities.

- Our business requires substantial infrastructure investments to maintain our existing level of operations and to fund investments targeted at growing our business. Capital infrastructure expenditures totaled \$515 million, \$560 million and \$507 million during 2000, 1999 and 1998, respectively. We believe that capital infrastructure spending will continue to be significant, driven by our investments in the cold drink segment and capacity needs.
- We intend to continue to pursue acquisitions of independent PepsiCo bottlers in the U.S. and Canada, particularly in territories contiguous to our own. These acquisitions will enable us to provide better service to our large retail customers, as well as to reduce costs through economies of scale. We also plan to evaluate international acquisition opportunities as they become available. Cash spending on acquisitions was \$26 million, \$176 million and \$546 million in 2000, 1999 and 1998, respectively.

Cash Flows

Fiscal 2000 Compared to Fiscal 1999

Operating free cash flow grew \$112 million, or 70%, from \$161 million in 1999 to \$273 million in 2000. Operating free cash flow is defined as net cash provided by operations less net cash used for investments, excluding cash used for the acquisitions of bottlers.

Net cash provided by operating activities increased \$113 million to \$831 million in 2000 driven by strong EBITDA growth partially offset by the timing of casualty insurance payments in 2000, which significantly contributed to our unfavorable change in operating working capital.

Net cash used by investments decreased by \$149 million from \$733 million in 1999 to \$584 million in 2000, primarily due to acquisition spending, which was \$150 million lower in 2000. Capital expenditures decreased by \$45 million, or 8%, as increases in the U.S. associated with our cold drink strategy were offset by decreases outside the U.S.

Net cash (used for) provided by financing decreased from a source of cash of \$174 million in 1999 to a use of cash of \$115 million in 2000. This decrease resulted from net cash received from IPO activities in 1999 coupled with an increase of \$13 million of share repurchases in 2000.

Fiscal 1999 Compared to Fiscal 1998

Operating free cash flow in 1999 grew \$36 million, or 29%, to \$161 million.

Net cash provided by operations in 1999 improved to \$718 million from \$625 million in 1998, due primarily to strong growth in EBITDA and favorable working capital cash flows resulting from the timing of cash payments and our continued focus on working capital management.

Net cash used for investments was \$733 million in 1999 compared to \$1,046 million in 1998. In 1999, \$176 million was utilized for the acquisition of bottlers in the U.S., Canada and Russia, compared to \$546 million in 1998. In addition, we continued to invest heavily in cold drink equipment in the U.S. and Canada, resulting in increased capital spending from \$507 million in 1998 to \$560 million in 1999.

Net cash provided by financing decreased by \$196 million from \$370 million to \$174 million during 1999, mainly due to the net pay-down of \$58 million of short-term borrowings in 1999, the payment in the first quarter of 1999 of long-term borrowings in Russia and \$90 million of share repurchases in the fourth quarter of 1999. Net IPO proceeds of \$2.2 billion and proceeds from the issuance of third-party debt of \$3.3 billion were used to repay obligations to PepsiCo and fund acquisitions.

MARKET RISKS AND CAUTIONARY STATEMENTS

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks including commodity prices, interest rates on our debt and foreign currency exchange rates.

Commodity Price Risk

We are subject to market risks with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate.

We use futures contracts and options on futures in the normal course of business to hedge anticipated purchases of certain raw materials and fuel used in our operations. Currently we have various contracts outstanding for aluminum and oil purchases in 2001, which establish our purchase price within defined ranges.

Interest Rate Risk

We manage our interest rate exposure on our external debt using financial instruments. We currently have an interest rate swap converting 3% of our fixed-rate debt to floating-rate debt.

Foreign Currency Exchange Rate Risk

Operating in international markets involves exposure to movements in currency exchange rates. Currency exchange rate movements typically also affect economic growth, inflation, interest rates, government actions and other factors. These changes can cause us to adjust our financing and operating strategies. The discussion below of changes in currency exchange rates does not incorporate these other economic factors. For example, the sensitivity analysis presented in the foreign currency discussion below does not take into account the possibility that the impact of an exchange rate movement may or may not be offset by the impact of changes in other categories.

Operations outside the U.S. constitute approximately 15% of our net revenues. As currency exchange rates change, translation of the statements of operations of our businesses outside the U.S. into U.S. dollars affects year-over-year comparability. We have not hedged currency risks because cash flows from international operations have generally been reinvested locally, nor historically have we entered into hedges to minimize the volatility of reported earnings. We estimate that a 10% change in foreign exchange rates would affect reported operating income by less than \$15 million.

Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes and all foreign currency gains and losses are included in the Consolidated Statements of Operations.

The table below presents information on contracts outstanding at December 30, 2000:

<i>dollars in millions</i>	Notional Amount	Carrying Amount	Fair Value
Commodity futures contracts	\$109	\$ —	\$ 3
Commodity options	448	5	6
Interest rate swap	100	—	—

The table below presents information on contracts outstanding at December 25, 1999:

<i>dollars in millions</i>	Notional Amount	Carrying Amount	Fair Value
Commodity futures contracts	\$ 91	\$ —	\$ 6
Commodity options	61	1	12
Interest rate swap	100	—	(2)

Euro

On January 1, 1999, eleven member countries of the European Union established fixed conversion rates between existing currencies and one common currency, the Euro. Beginning in January 2002, new Euro-denominated bills and coins will be issued, and existing currencies will be withdrawn from circulation. Spain is one of the original member countries that instituted the Euro and, in June 2000, Greece also elected to institute the Euro effective January 1, 2001. We have established plans to address the issues raised by the Euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment such as vending machines to accommodate Euro-denominated transactions and the impact of one common currency on cross-border pricing. Since financial systems and processes currently accommodate

multiple currencies, we do not expect the system and equipment conversion costs to be material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency may have on pricing, costs and the resulting impact, if any, on our financial condition or results of operations.

Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this annual report on Form 10-K may constitute forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on currently available competitive, financial and economic data and PBG's operating plans. These statements involve a number of risks, uncertainties and other factors that could cause actual results to be materially different. Among the events and uncertainties that could adversely affect future periods are lower-than-expected net pricing resulting from marketplace competition, material changes from expectations in the cost of raw materials and ingredients, an inability to achieve the expected timing for returns on cold drink equipment and related infrastructure expenditures, material changes in expected levels of marketing support payments from PepsiCo, an inability to meet projections for performance in newly acquired territories, unexpected costs associated with conversion to the common European currency and unfavorable interest rate and currency fluctuations.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

<i>in millions</i>	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- hensive Loss	Treasury Stock	Total	Compre- hensive Income/ (Loss)
Balance at December 27, 1997	\$ —	\$ —	\$ —	\$(184)	\$ —	\$ (184)	
Comprehensive loss:							
Net loss	—	—	—	—	—	—	\$ (146)
Currency translation adjustment	—	—	—	(35)	—	(35)	(35)
Minimum pension liability adjustment	—	—	—	(19)	—	(19)	(19)
Total comprehensive loss							<u>\$ (200)</u>
Balance at December 26, 1998	—	—	—	(238)	—	(238)	
Comprehensive income:							
Net loss before IPO	—	—	—	—	—	—	\$ (29)
Net income after IPO	—	—	147	—	—	147	147
Currency translation adjustment	—	—	—	(4)	—	(4)	(4)
Minimum pension liability adjustment	—	—	—	19	—	19	19
Total comprehensive income							<u>\$ 133</u>
Initial public offering: 100 shares net of settlement of advances from PepsiCo	2	1,736	—	—	—	1,738	
Treasury stock transactions, net: 5 shares	—	—	—	—	(90)	(90)	
Cash dividends declared on common stock	—	—	(9)	—	—	(9)	
Balance at December 25, 1999	2	1,736	138	(223)	(90)	1,563	
Comprehensive income:							
Net income	—	—	229	—	—	229	\$ 229
Currency translation adjustment	—	—	—	(31)	—	(31)	(31)
Total comprehensive income							<u>\$ 198</u>
Treasury stock transactions, net: 5 shares	—	—	—	—	(103)	(103)	
Cash dividends declared on common stock	—	—	(12)	—	—	(12)	
Balance at December 30, 2000	\$ 2	\$1,736	\$355	\$(254)	\$(193)	\$1,646	

See accompanying notes to Consolidated Financial Statements.

Tabular dollars in millions, except per share data

Note 1: Basis of Presentation

The Pepsi Bottling Group, Inc. ("PBG") consists of bottling operations located in the United States, Canada, Spain, Greece and Russia. These bottling operations manufacture, sell and distribute Pepsi-Cola beverages including Pepsi-Cola, Diet Pepsi, Mountain Dew and other brands of carbonated soft drinks and ready-to-drink beverages. Approximately 90% of PBG's 2000 net revenues were derived from the sale of Pepsi-Cola beverages. References to PBG throughout these Consolidated Financial Statements are made using the first-person notations of "we," "our" and "us."

Prior to our formation, we were an operating unit of PepsiCo, Inc. ("PepsiCo"). On March 31, 1999, we offered 100,000,000 shares of PBG common stock for sale at \$23 per share in an initial public offering generating \$2,208 million in net proceeds. These proceeds were used to fund acquisitions and repay obligations to PepsiCo. Subsequent to the offering, PepsiCo owned and continues to own 55,005,679 shares of common stock, consisting of 54,917,329 shares of common stock and 88,350 shares of Class B common stock. PepsiCo's ownership at December 30, 2000 represents 37.8% of the outstanding common stock and 100% of the outstanding Class B common stock, together representing 46.0% of the voting power of all classes of our voting stock. PepsiCo also owns 7.1% of the equity of Bottling Group, LLC, our principal operating subsidiary, giving PepsiCo economic ownership of 42.2% of our combined operations at December 30, 2000.

The common shares and Class B common shares are substantially identical, except for voting rights. Holders of our common stock are entitled to one vote per share and holders of our Class B common stock are entitled to 250 votes per share. Each share of Class B common stock held by PepsiCo is, at PepsiCo's option, convertible into one share of common stock. Holders of our common stock and holders of our Class B common stock share equally on a per share basis in any dividend distributions.

The accompanying Consolidated Financial Statements include information that has been presented on a "carve-out" basis for the periods prior to our initial public offering. This information includes the historical results of operations and assets and liabilities directly related to PBG, and has been prepared from PepsiCo's historical accounting records. Certain estimates, assumptions and allocations were made in determining such financial statement information. Therefore, these Consolidated Financial Statements may not necessarily be indicative of the results of operations, financial position or cash flows that would

have existed had we been a separate, independent company from the first day of all periods presented.

Note 2: Summary of Significant Accounting Policies

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Basis of Consolidation The accounts of all of our wholly and majority-owned subsidiaries are included in the accompanying Consolidated Financial Statements. We have eliminated intercompany accounts and transactions in consolidation.

Fiscal Year Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal year 2000 consisted of 53 weeks while fiscal years 1999 and 1998 consisted of 52 weeks.

Revenue Recognition We recognize revenue when goods are delivered to customers. Sales terms do not allow a right of return unless product freshness dating has expired. Reserves for returned product were \$3 million at fiscal year-end 2000 and \$2 million at fiscal years ended 1999 and 1998, respectively.

Advertising and Marketing Costs We are involved in a variety of programs to promote our products. We include advertising and marketing costs in selling, delivery and administrative expenses and expense such costs in the year incurred. Advertising and marketing costs were \$350 million, \$342 million and \$293 million in 2000, 1999 and 1998, respectively.

Bottler Incentives PepsiCo and other brand owners, at their sole discretion, provide us with various forms of marketing support. This marketing support is intended to cover a variety of programs and initiatives, including direct marketplace support, capital equipment funding and shared media and advertising support. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expenses. Direct marketplace support is primarily funding by PepsiCo and other brand owners of sales discounts and similar programs and is recorded as an adjustment to net revenues. Capital equipment funding is designed to support the purchase and placement of marketing equipment

Tabular dollars in millions, except per share data

and is recorded as a reduction of selling, delivery and administrative expenses. Shared media and advertising support is recorded as a reduction to advertising and marketing expense within selling, delivery and administrative expenses. There are no conditions or other requirements that could result in a repayment of marketing support received.

The total bottler incentives we received from PepsiCo and other brand owners were \$566 million, \$563 million and \$536 million for 2000, 1999 and 1998, respectively. Of these amounts, we recorded \$277 million, \$263 million and \$247 million for 2000, 1999 and 1998, respectively, in net revenues, and the remainder as a reduction of selling, delivery and administrative expenses. The amount of our bottler incentives received from PepsiCo was more than 90% of our bottler incentives in each of the three years, with the balance received from the other brand owners.

Stock-Based Employee Compensation We measure stock-based compensation expense in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, compensation expense for stock option grants to PBG employees is measured as the excess of the quoted market price of common stock at the grant date over the amount the employee must pay for the stock. Our policy is to grant stock options at fair value on the date of grant.

Cash Equivalents Cash equivalents represent funds we have temporarily invested with original maturities not exceeding three months.

Inventories We value our inventories at the lower of cost computed on the first-in, first-out method or net realizable value.

Property, Plant and Equipment We state property, plant and equipment ("PP&E") at cost, except for PP&E that has been impaired, for which we write down the carrying amount to estimated fair-market value, which then becomes the new cost basis.

Intangible Assets Intangible assets include both franchise rights and goodwill arising from the allocation of the purchase price of businesses acquired. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Franchise rights and goodwill are evaluated at the date of acquisition and amortized on a straight-line basis over their estimated useful lives, which in most cases is from 20 to 40 years.

Recoverability of Long-Lived Assets We review all long-lived assets, including intangible assets, when facts and circumstances indicate that the carrying value of the asset may not be recoverable. When necessary, we write down an impaired asset to its estimated fair value based on the best information available. Estimated fair value is generally based on either appraised value or measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

Minority Interest PBG and PepsiCo contributed bottling businesses and assets used in the bottling businesses to Bottling Group, LLC, our principal operating subsidiary, in connection with the formation of Bottling Group, LLC. As a result of the contribution of these assets, PBG owns 92.9% of Bottling Group, LLC and PepsiCo owns the remaining 7.1%. Accordingly, the Consolidated Financial Statements reflect PepsiCo's share of consolidated net income of Bottling Group, LLC as minority interest in our Consolidated Statements of Operations, and PepsiCo's share of consolidated net assets of Bottling Group, LLC as minority interest in our Consolidated Balance Sheets.

Treasury Stock We record the repurchase of shares of our common stock at cost and classify these shares as treasury stock within shareholders' equity. Repurchased shares are included in our authorized shares but not included in our shares outstanding. We record shares reissued using an average cost. In the second quarter of 2000 the Board of Directors authorized the repurchase of 5 million shares of common stock, increasing the cumulative amount of shares that can be repurchased from 10 million shares, which our Board of Directors authorized in 1999, to 15 million shares. We made net repurchases of approximately 5 million shares for \$103 million in 2000 and approximately 5 million shares for \$90 million in 1999.

Financial Instruments and Risk Management We use futures contracts and options on futures to hedge against the risk of adverse movements in the price of certain commodities and fuel used in our operations. In order to qualify for deferral hedge accounting of unrealized gains and losses, such instruments must be designated and effective as a hedge of an anticipated transaction. Changes in the value of instruments that we use to hedge commodity prices are highly correlated to the changes in the value of the purchased commodity.

We review the correlation and effectiveness of these financial instruments on a periodic basis. Gains and losses on futures contracts that are designated and effective as hedges of future commodity purchases are deferred and included in the cost of the related raw materials when purchased. Financial instruments that do not meet the criteria for hedge accounting treatment are marked-to-market with the resulting unrealized gain or loss recorded as other income and expense within selling, delivery and administrative expenses. Realized gains and losses that result from the early termination of financial instruments used for hedging purposes are deferred and expensed when the anticipated transaction actually occurs. Premiums paid for the purchase of options on futures are recorded as a prepaid expense in the Consolidated Balance Sheets and are amortized over the duration of the contract.

From time to time, we utilize interest rate swaps to hedge our exposure to fluctuations in interest rates. The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. The interest differential not yet settled in cash is reflected in the accompanying Consolidated Balance Sheets as a receivable or payable within the appropriate current asset or liability captions. If we terminate an interest rate swap position, the gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify, or would be recognized immediately if the underlying debt instrument was settled prior to maturity.

We use prepaid forward contracts for the purchase of PBG common stock to hedge the portion of our deferred compensation costs which are based on our stock price. The forward contracts are reflected in our Consolidated Balance Sheets at fair value as a prepaid expense and changes in fair value of these contracts are reflected as interest expense in our Consolidated Statements of Operations.

Shipping and Handling Costs We record shipping and handling costs within selling, delivery and administrative expenses. Such costs totaled \$925 million, \$915 million and \$882 million in 2000, 1999 and 1998, respectively.

Foreign Currency Gains and Losses We translate the balance sheets of our foreign subsidiaries that do not operate in highly inflationary economies at the exchange rates in effect at the balance sheet date, while we translate the statements

of operations at the average rates of exchange during the year. The resulting translation adjustments of our foreign subsidiaries are recorded directly to accumulated other comprehensive loss. Foreign currency gains and losses reflect translation gains and losses arising from the re-measurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries and transaction gains and losses. Russia is considered a highly inflationary economy for accounting purposes and we include all foreign currency gains and losses in the Consolidated Statements of Operations.

New Accounting Standards In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for hedging activities and derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

In July 1999, the FASB issued Statement of Financial Accounting Standard 137, delaying the implementation of SFAS 133 for one year. SFAS 133 will now be effective for our first quarter of fiscal year 2001. In June 2000, the FASB issued Statement of Financial Accounting Standard 138, amending the accounting and reporting standards of SFAS 133.

We will implement the accounting and reporting standards of SFAS 133, as amended by SFAS 138, on the first day of fiscal year 2001. The adoption of these pronouncements will result in an increase in assets of less than \$10 million and a corresponding decrease in accumulated other comprehensive loss.

Earnings Per Share We compute basic earnings per share by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock that would then participate in net income.

Reclassifications Certain reclassifications were made in our consolidated financial statements to 1999 and 1998 amounts to conform with the 2000 presentation.

Tabular dollars in millions, except per share data

Note 3: Comparability of Results

Asset Lives At the beginning of fiscal year 2000, we changed the estimated useful lives of certain categories of assets primarily to reflect the success of our preventive maintenance programs in extending the useful lives of these assets. The changes, which are detailed in the table below, lowered total depreciation expense by approximately \$69 million, equivalent to \$0.26 per diluted share.

Estimated Useful Lives

in years	2000	1999
Manufacturing equipment	15	10
Heavy fleet	10	8
Fountain dispensing equipment	7	5
Small specialty coolers and specialty marketing equipment	3	5 to 7

Fiscal Year Fiscal year 2000 consisted of 53 weeks while fiscal years 1999 and 1998 consisted of 52 weeks. The extra week in 2000 contributed approximately \$0.05 of additional diluted earnings per share to our 2000 operating results.

Initial Public Offering For the periods prior to our initial public offering, our Consolidated Financial Statements have been “carved-out” from the financial statements of PepsiCo using the historical results of operations and assets and liabilities of our business. The Consolidated Financial Statements reflect certain costs that may not necessarily be indicative of the costs we would have incurred had we operated as an independent, stand-alone entity for all periods presented. These costs include an allocation of PepsiCo’s corporate overhead and interest expense, and income taxes.

- We included corporate overhead related to PepsiCo’s corporate administrative functions based on a specific identification of PepsiCo’s administrative costs relating to the bottling operations and, to the extent that such identification was not practicable, based upon the percentage of our revenues to PepsiCo’s consolidated net revenues. These costs are included in selling, delivery and administrative expenses in our Consolidated Statements of Operations.

- We allocated \$3.3 billion of PepsiCo’s debt to our business. We charged interest expense on this debt using PepsiCo’s weighted-average interest rate. Once we issued \$3.3 billion of third-party debt in the first quarter of 1999, our actual interest rates were used to determine interest expense for the remainder of the year.

- We reflected income taxes in our Consolidated Financial Statements as if we had actually filed a separate income tax return.

The amounts, by year, of the historical allocations described above are as follows:

	1999*	1998
Corporate overhead expense	\$ 3	\$ 40
Interest expense	\$28	\$210
PepsiCo’s weighted-average interest rate	5.8%	6.4%

*Prior to our initial public offering.

In addition, our historical capital structure is not representative of our current structure due to our initial public offering. In 1999, immediately preceding the offering, and in 1998, we had 55,000,000 shares of common stock outstanding. In connection with the offering, we sold 100,000,000 shares to the public.

Note 4: Unusual Impairment and Other Charges and Credits

	1999	1998*
Non-cash compensation charge	\$ 45	\$ —
Vacation policy change	(53)	—
Asset impairment and restructuring charges	(8)	222
	\$(16)	\$222
After minority interest and income taxes	\$ (9)	\$218

*Does not include the tax settlement with the Internal Revenue Service discussed on the next page.

The 1999 unusual items comprise the following:

- In connection with the completion of our initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by PBG employees. As a result, we incurred a \$45 million non-cash compensation charge in the second quarter, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

- Employees now earn vacation time evenly throughout the year based upon service rendered. Previously, employees were fully vested for the current year at the beginning of each year. As a result of this change, we reversed an accrual of \$53 million into income.
- In the fourth quarter, \$8 million of the remaining 1998 restructuring reserve was reversed into income, as actual costs incurred to renegotiate manufacturing and leasing contracts in Russia and to reduce the number of employees were less than the amounts originally estimated.

The 1998 unusual items comprise the following:

- A fourth-quarter charge of \$212 million for asset impairment of \$194 million and other charges of \$18 million related to the restructuring of our Russian bottling operations. The economic turmoil in Russia, which accompanied the devaluation of the ruble in August 1998, had an adverse impact on our operations. Consequently, in the fourth quarter we experienced a significant drop in demand, resulting in lower net revenues and increased operating losses. Additionally, since net revenues in Russia are denominated in rubles, whereas a substantial portion of costs and expenses at that time were denominated in U.S. dollars, our operating margins were further eroded. In response to these conditions, we reduced our cost structure primarily through closing four of our 26 distribution facilities, renegotiating manufacturing and leasing contracts and reducing the number of employees, primarily in sales and operations, from approximately 4,500 to 2,000. We also evaluated the resulting impairment of long-lived assets, triggered by the reduction in utilization of assets caused by the lower demand, the adverse change in the business climate and the expected continuation of operating losses and cash deficits in that market. The impairment charge reduced the net book value of these assets from \$245 million to \$51 million, their estimated fair market value based primarily on values paid for similar assets in Russia.

A fourth-quarter charge of \$10 million for employee-related and other costs, mainly relocation and severance, resulting from the separation of Pepsi-Cola North America's concentrate and bottling organizations.

- We recognized an income tax benefit of \$46 million in the fourth quarter of 1998 upon the settlement of a disputed claim with the Internal Revenue Service relating to the deductibility of the amortization of acquired franchise rights.

Note 5: Inventories

	2000	1999
Raw materials and supplies	\$107	\$110
Finished goods	174	183
	\$281	\$293

Note 6: Property, Plant and Equipment, net

	2000	1999
Land	\$ 145	\$ 145
Buildings and improvements	903	852
Manufacturing and distribution equipment	2,186	2,112
Marketing equipment	1,745	1,596
Other	89	84
	5,068	4,789
Accumulated depreciation	(2,710)	(2,571)
	\$ 2,358	\$ 2,218

We calculate depreciation on a straight-line basis over the estimated lives of the assets as follows:

Buildings and improvements	20-33 years
Manufacturing equipment	15 years
Distribution equipment	5-10 years
Marketing equipment	3-7 years

Note 7: Intangible Assets, net

	2000	1999
Franchise rights and other identifiable intangibles	\$ 3,557	\$ 3,565
Goodwill	1,591	1,582
	5,148	5,147
Accumulated amortization	(1,454)	(1,328)
	\$ 3,694	\$ 3,819

Identifiable intangible assets arise principally from the allocation of the purchase price of businesses acquired, and consist primarily of territorial franchise rights. Our franchise rights are typically perpetual in duration, subject to compliance with the underlying franchise agreement. We assign amounts to such identifiable intangibles based on their estimated fair value at the date of acquisition. Goodwill represents the residual purchase price after allocation to all identifiable net assets.

Tabular dollars in millions, except per share data

Note 8: Accounts Payable and Other Current Liabilities

	2000	1999
Accounts payable	\$344	\$334
Accrued compensation and benefits	147	147
Trade incentives	206	201
Accrued interest	71	69
Other current liabilities	173	178
	\$941	\$929

Note 9: Short-term Borrowings and Long-term Debt

	2000	1999
Short-term borrowings		
Current maturities of long-term debt	\$ 1	\$ 10
Borrowings under lines of credit	25	13
	\$ 26	\$ 23
Long-term debt		
5½% senior notes due 2009	\$1,300	\$1,300
5½% senior notes due 2004	1,000	1,000
7% senior notes due 2029	1,000	1,000
Other	6	15
	3,306	3,315
Less: Unamortized discount	34	37
Current maturities of long-term debt	1	10
	\$3,271	\$3,268

Maturities of long-term debt as of December 30, 2000 are 2001: \$1 million, 2002: \$0, 2003: \$0, 2004: \$1,000 million, 2005: \$0 and thereafter, \$2,305 million.

The \$1.3 billion of 5½% senior notes and the \$1.0 billion of 5½% senior notes were issued on February 9, 1999, by our subsidiary Bottling Group, LLC and are guaranteed by PepsiCo. We issued the \$1.0 billion of 7% senior notes, which are guaranteed by Bottling Group, LLC, on March 8, 1999. During the second quarter of 1999 we executed an interest rate swap converting 3% of our fixed-rate debt to floating-rate debt.

We allocated \$3.3 billion of PepsiCo's long-term debt in our financial statements prior to issuing the senior notes referred to above. Our interest expense includes the related allocated interest expense of \$28 million in 1999 and \$210 million in 1998, and is based on PepsiCo's weighted-average interest rate of 5.8% and 6.4% in 1999 and 1998, respectively.

In April 1999, we entered into a \$500 million commercial paper program that is supported by a credit facility. The credit facility consists of two \$250 million components, one of which expires in May 2001 and the other of which expires in April 2004. There were no borrowings outstanding under this program at December 30, 2000 or December 25, 1999.

We have available short-term bank credit lines of approximately \$135 million and \$121 million at December 30, 2000 and December 25, 1999, respectively. These lines are used to support general operating needs of our business outside the U.S. The weighted-average interest rate of these lines of credit outstanding at December 30, 2000, December 25, 1999 and December 26, 1998 was 8.9%, 12.0% and 8.7%, respectively.

Amounts paid to third parties for interest were \$202 million, \$108 million and \$20 million in 2000, 1999 and 1998, respectively. In 1999 and 1998, allocated interest expense was deemed to have been paid to PepsiCo, in cash, in the period in which the cost was incurred.

Note 10: Leases

We have noncancellable commitments under both capital and long-term operating leases. Capital and operating lease commitments expire at various dates through 2023. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance.

Our future minimum commitments under noncancellable leases are set forth below:

	Commitments	
	Capital	Operating
2001	\$ —	\$ 26
2002	—	21
2003	—	12
2004	—	9
2005	—	8
Later years	3	60
	\$ 3	\$136

At December 30, 2000, the present value of minimum payments under capital leases was \$1 million, after deducting \$2 million for imputed interest. Our rental expense was \$42 million, \$55 million and \$45 million for 2000, 1999 and 1998, respectively.

Note 11: Financial Instruments and Risk Management

As of December 30, 2000, our use of derivative instruments was limited to interest rate swaps, and futures and options contracts entered into with financial institutions. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use.

The table below presents information on derivative contracts outstanding at December 30, 2000:

	Notional Amount	Carrying Amount	Fair Value
Commodity futures contracts	\$109	\$ —	\$ 3
Commodity options	448	5	6
Interest rate swap	100	—	—
Equity futures contracts	10	10	10

The table below presents information on derivative contracts outstanding at December 25, 1999:

	Notional Amount	Carrying Amount	Fair Value
Commodity futures contracts	\$ 91	\$ —	\$ 6
Commodity options	61	1	12
Interest rate swap	100	—	(2)

Fair Value Financial assets with carrying values approximating fair value include cash and cash equivalents and trade accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The carrying value of these financial assets and liabilities approximates fair value due to the short maturity of our financial assets and liabilities, and since interest rates approximate fair value for short-term debt.

Long-term debt at December 30, 2000 has a carrying value and fair value of \$3.3 billion and \$3.2 billion, respectively.

Commodity Price Risk We use futures contracts and options on futures in the normal course of business to hedge anticipated purchases of certain raw materials and fuel used in our operations.

Deferred gains and losses at year-end 2000 and 1999, as well as gains and losses recognized as part of cost of sales in 2000, 1999 and 1998, were not significant. At year-end 2000 and 1999, we had commodity contracts involving notional

amounts of \$557 million and \$152 million outstanding, respectively. These notional amounts do not represent amounts exchanged by the parties and thus are not a measure of our exposure; rather, they are used as the basis to calculate the amounts due under the agreements.

Interest Rate Risk Prior to our initial public offering, we had minimal external interest rate risk to manage. Subsequent to the offering, as interest rate risk has grown, we have begun to manage interest rate exposure through the use of an interest rate swap, which converted 3% of our fixed-rate debt to floating-rate debt. Credit risk from the swap agreement is dependent both on the movement in interest rates and the possibility of non-payment by the swap counterparty. We mitigate credit risk by only entering into swap agreements with high credit-quality counterparties and by netting swap payments within each contract. The notional amount, interest payment and maturity date of the swap matches the notional amount, interest payment and maturity date of the related debt and, accordingly, any market risk or opportunity associated with this swap is fully offset by the opposite market impact on the related debt.

Other Risks At December 30, 2000, we had equity derivative contracts with financial institutions with a notional amount of \$10 million. These prepaid futures contracts are for the purchase of PBG common stock and are used to hedge the portion of our deferred compensation costs which are based on our stock price. These contracts are marked-to-market with changes in fair value recognized as interest expense in our Consolidated Statements of Operations. The change in fair value of these contracts was not significant in 2000. The fair value of these contracts totaled \$10 million at December 30, 2000 and was recorded in prepaid expenses and other current assets in our Consolidated Balance Sheets.

Note 12: Pension and Postretirement Benefit Plans

Pension Benefits Our U.S. employees participate in non-contributory defined benefit pension plans, which cover substantially all full-time salaried employees, as well as most hourly employees. Benefits generally are based on years of service and compensation, or stated amounts for each year of service. All of our qualified plans are funded and contributions are made in amounts not less than minimum statutory funding requirements and not more than the maximum amount that can be deducted for U.S. income tax purposes. Our net pension expense for the defined benefit pension plans for our operations outside the U.S. was not significant.

Tabular dollars in millions, except per share data

Postretirement Benefits Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. The plans are not funded and since 1993 have included retiree cost sharing.

Components of net periodic benefit costs:

	Pension		
	2000	1999	1998
Service cost	\$ 27	\$ 30	\$ 24
Interest cost	49	42	37
Expected return on plan assets	(56)	(49)	(45)
Amortization of transition asset	—	—	(2)
Amortization of net loss	—	4	—
Amortization of prior service amendments	5	5	4
Net periodic benefit costs	25	32	18
Settlement loss	—	—	1
Net periodic benefit costs including settlements	\$ 25	\$ 32	\$ 19

Components of net periodic benefit costs:

	Postretirement		
	2000	1999	1998
Service cost	\$ 3	\$ 4	\$ 4
Interest cost	14	12	12
Amortization of net loss	1	—	—
Amortization of prior service amendments	(6)	(5)	(5)
Net periodic benefit costs	\$12	\$11	\$11

We amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Changes in the benefit obligation:

	Pension		Postretirement	
	2000	1999	2000	1999
Obligation at beginning of year	\$647	\$648	\$206	\$187
Service cost	27	30	3	4
Interest cost	49	42	14	12
Plan amendments	4	3	(10)	—
Actuarial (gain)/loss	(19)	(57)	11	14
Benefit payments	(40)	(38)	(12)	(11)
Acquisitions and other	(4)	19	—	—
Obligation at end of year	\$664	\$647	\$212	\$206

Changes in the fair value of assets:

	Pension		Postretirement	
	2000	1999	2000	1999
Fair value at beginning of year	\$597	\$ 541	\$ —	\$ —
Actual return on plan assets	96	85	—	—
Employer contributions	16	—	12	11
Benefit payments	(40)	(38)	(12)	(11)
Acquisitions and other	(4)	9	—	—
Fair value at end of year	\$665	\$ 597	\$ —	\$ —

Selected information for the plans with accumulated benefit obligations in excess of plan assets:

	Pension		Postretirement	
	2000	1999	2000	1999
Projected benefit obligation	\$31	\$ 32	\$212	\$206
Accumulated benefit obligation	14	12	212	206
Fair value of plan assets	—	—	—	—

Funded status recognized on the Consolidated Balance Sheets:

	Pension		Postretirement	
	2000	1999	2000	1999
Funded status at end of year	\$ 1	\$(50)	\$(212)	\$(206)
Unrecognized prior service cost	31	33	(21)	(17)
Unrecognized (gain)/loss	(73)	(14)	45	35
Unrecognized special termination benefits	(1)	(2)	—	—
Fourth quarter employer contributions	10	—	7	3
Net amounts recognized	\$(32)	\$(33)	\$(181)	\$(185)

Net amounts recognized in the Consolidated Balance Sheets:

	Pension		Postretirement	
	2000	1999	2000	1999
Prepaid benefit costs	\$ 31	\$ 18	\$ —	\$ —
Accrued benefit liability	(63)	(51)	(181)	(185)
Net amounts recognized	\$(32)	\$(33)	\$(181)	\$(185)

The weighted-average assumptions used to compute the above information are set forth below:

	Pension		
	2000	1999	1998
Discount rate for benefit obligation	7.8%	7.8%	6.8%
Expected return on plan assets	10.0%	10.0%	10.0%
Rate of compensation increase	4.6%	4.3%	4.8%

	Postretirement		
	2000	1999	1998
Discount rate for benefit obligation	7.8%	7.8%	6.9%

Components of Pension Assets The pension plan assets are principally invested in stocks and bonds.

Health Care Cost Trend Rates We have assumed an average increase of 5.9% in 2001 in the cost of postretirement medical benefits for employees who retired before cost sharing was introduced. This average increase is then projected to decline gradually to 5.5% in 2005 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one-percentage point change in assumed health care costs would have the following effects:

	1%	1%
	Increase	Decrease
Effect on total fiscal year 2000 service and interest cost components	\$1	\$(1)
Effect on the fiscal year 2000 accumulated postretirement benefit obligation	5	(5)

Other Employee Benefit Plans We made several changes to our employee benefit plans that took effect in fiscal year 2000. The changes were made to our vacation policy, pension and retiree medical plans and included some benefit enhancements as well as cost containment provisions. These changes did not have a significant impact on our financial results in 2000.

In 1999, our Board of Directors approved a matching company contribution to our 401(k) plan, which began in 2000. The match is dependent upon the employee's contribution and years of service. Fiscal year 2000 matching company contributions were approximately \$15 million.

In the fourth quarter of 1999, we contributed \$16 million to a defined contribution plan as a one-time payment for the benefit of management employees. The amount was based on full-year 1999 performance and included other incentive-related features.

Note 13: Employee Stock Option Plans

Under our long-term incentive plan, stock options are issued to middle and senior management employees and vary according to salary and level within PBG. Options granted in 2000 had exercise prices ranging from \$18.75 per share to \$31.75 per share, expire in 10 years and become exercisable 25% after the first year, 25% after the second year and the remainder after the third year. Options granted in 1999 had exercise prices ranging from \$19.25 per share to \$23 per share and, with the exception of our chairman's options, are exercisable after three years and expire in 10 years. Our chairman's 1999 options are exercisable ratably over the three years following our initial public offering date.

In conjunction with our initial public offering, we issued a one-time founders' grant of options to all full-time non-management employees in 1999 to purchase 100 shares of PBG stock. These options have an exercise price equal to the initial public offering price of \$23 per share, are exercisable after three years, and expire in 10 years.

In connection with the completion of our initial public offering, PepsiCo vested substantially all non-vested PepsiCo stock options held by PBG employees. As a result, we incurred a \$45 million non-cash compensation charge in the second quarter of 1999, equal to the difference between the market price of the PepsiCo capital stock and the exercise price of these options at the vesting date.

Tabular dollars in millions, except per share data

The following table summarizes option activity during 2000:

<i>Options in millions</i>	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	11.2	\$22.98
Granted	6.6	19.13
Exercised	(0.1)	21.05
Forfeited	(1.1)	22.39
Outstanding at end of year	16.6	\$21.50
Exercisable at end of year	0.9	\$22.22
Weighted-average fair value of options granted during the year		\$ 9.35

The following table summarizes option activity during 1999:

<i>Options in millions</i>	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	—	\$ —
Granted	12.1	22.98
Exercised	—	—
Forfeited	(0.9)	23.00
Outstanding at end of year	11.2	\$22.98
Exercisable at end of year	—	\$ —
Weighted-average fair value of options granted during the year		\$10.29

The following table summarizes stock options outstanding at December 30, 2000:

<i>Options in millions</i>	Options	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price
Range of Exercise Price			
\$18.75–\$22.99	6.2	8.99	\$18.77
\$23.00–\$31.75	10.4	8.02	23.12
	16.6	8.38	\$21.50

The following table summarizes stock options exercisable at December 30, 2000:

<i>Options in millions</i>	Options	Weighted-Average Exercise Price
Range of Exercise Price		
\$18.75–\$22.99	0.2	\$18.75
\$23.00–\$31.75	0.7	23.00
	0.9	\$22.22

We adopted the disclosure provisions of Statement of Financial Accounting Standard 123, "Accounting for Stock-Based Compensation," but continue to measure stock-based compensation cost in accordance with the Accounting Principles Board Opinion 25 and its related interpretations. If we had measured compensation cost for the stock options granted to our employees under the fair value based method prescribed by SFAS 123, net income would have been changed to the pro forma amounts set forth below:

	2000	1999
Net Income		
Reported	\$ 229	\$ 118
Pro forma	204	102
Diluted Earnings per Share		
Reported	\$1.53	\$0.92
Pro forma	1.37	0.79

The fair value of PBG stock options used to compute pro forma net income disclosures was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2000	1999
Risk-free interest rate	6.7%	5.8%
Expected life	7 years	7 years
Expected volatility	35%	30%
Expected dividend yield	0.43%	0.35%

Note 14: Income Taxes

The details of our income tax provision are set forth below:

	2000	1999	1998
Current: Federal	\$107	\$ 79	\$(84)
Foreign	1	(1)	4
State	27	19	(13)
	135	97	(93)
Deferred: Federal	7	(17)	45
Foreign	—	—	(5)
State	(7)	(10)	7
	—	(27)	47
	\$135	\$ 70	\$(46)

Our U.S. and foreign income (loss) before income taxes is set forth below:

	2000	1999	1998
U.S.	\$318	\$188	\$ 116
Foreign	46	—	(308)
	\$364	\$188	\$(192)

Our reconciliation of income taxes calculated at the U.S. federal statutory rate to our provision for income taxes is set forth below:

	2000	1999	1998
Income taxes computed at the U.S. federal statutory rate	35.0%	35.0%	(35.0)%
State income tax, net of federal tax benefit	3.2	3.2	—
Impact of foreign results	(7.5)	(9.1)	(12.2)
Goodwill and other nondeductible expenses	5.1	7.8	7.5
U.S. franchise rights tax settlement	—	—	(24.0)
Unusual impairment and other charges and credits	—	(0.6)	38.7
Other, net	1.2	1.1	1.0
Total effective income tax rate	37.0%	37.4%	(24.0)%

The details of our 2000 and 1999 deferred tax liabilities (assets) are set forth below:

	2000	1999
Intangible assets and property, plant and equipment	\$1,098	\$1,231
Other	96	90
Gross deferred tax liabilities	1,194	1,321
Net operating loss carryforwards	(139)	(132)
Employee benefit obligations	(112)	(116)
Bad debts	(15)	(21)
Various liabilities and other	(70)	(118)
Gross deferred tax assets	(336)	(387)
Deferred tax asset valuation allowance	148	147
Net deferred tax assets	(188)	(240)
Net deferred tax liability	\$1,006	\$1,081
Included in:		
Prepaid expenses and other current assets	\$ (66)	\$ (97)
Deferred income taxes	1,072	1,178
	\$1,006	\$1,081

We have net operating loss carryforwards totaling \$402 million at December 30, 2000, which are available to reduce future taxes in the U.S., Spain, Greece and Russia. Of these carryforwards, \$40 million expire in 2001 and \$362 million expire at various times between 2002 and 2019. We have established a full valuation allowance for the net operating loss carryforwards attributable to Spain, Greece and Russia based upon our projection that these losses will more likely than not expire before they can be used. In addition, at December 30, 2000 we have a tax credit carryforward in the U.S. of \$7 million with an indefinite carryforward period.

Deferred taxes are not recognized for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. Determination of the amount of unrecognized deferred taxes related to these investments is not practicable.

Our valuation allowances, which reduce deferred tax assets to an amount that will more likely than not be realized, have increased by \$1 million and \$12 million in 2000 and 1999, respectively.

Income taxes receivable were \$12 million and \$0 at December 30, 2000 and December 25, 1999, respectively. Such amounts are recorded within prepaid expenses and other current assets in our Consolidated Balance Sheets. Amounts paid to taxing authorities for income taxes were \$147 million and \$111 million in 2000 and 1999, respectively. In 1998 our allocable share of income taxes was deemed to have been paid to PepsiCo, in cash, in the period in which the cost was incurred.

Tabular dollars in millions, except per share data

Note 15: Geographic Data

We operate in one industry, carbonated soft drinks and other ready-to-drink beverages. We conduct business in 41 states and the District of Columbia in the U.S. Outside the U.S., we conduct business in eight Canadian provinces, Spain, Greece and Russia.

	Net Revenues		
	2000	1999	1998
U.S.	\$6,830	\$6,352	\$5,886
Other countries	1,152	1,153	1,155
	\$7,982	\$7,505	\$7,041

	Long-Lived Assets		
	2000	1999	1998
U.S.	\$5,192	\$5,139	\$5,024
Other countries	960	987	980
	\$6,152	\$6,126	\$6,004

Note 16: Relationship with PepsiCo

At the time of the initial public offering we entered into a number of agreements with PepsiCo. The most significant agreements that govern our relationship with PepsiCo consist of:

- (1) the master bottling agreement for cola beverages bearing the “Pepsi-Cola” and “Pepsi” trademark, including Pepsi, Diet Pepsi and Pepsi ONE in the United States; bottling and distribution agreements for non-cola products in the United States, including Mountain Dew; and a master fountain syrup agreement in the United States;
- (2) agreements similar to the master bottling agreement and the non-cola agreements for each specific country, including Canada, Spain, Greece and Russia, as well as a fountain syrup agreement similar to the master syrup agreement for Canada;
- (3) a shared services agreement whereby PepsiCo provides us with certain administrative support, including procurement of raw materials, transaction processing, such as accounts payable and credit and collection, certain tax and treasury services, and information technology maintenance and systems development. Beginning in 1998, a PepsiCo affiliate has provided casualty insurance to us; and
- (4) transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities and obligations arising from periods prior to the initial public offering. Under our tax separation agreement, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods

ending on or before the initial public offering. PepsiCo has contractually agreed to act in good faith with respect to all tax audit matters affecting us. In addition, PepsiCo has agreed to use their best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice.

We purchase concentrate from PepsiCo that is used in the production of carbonated soft drinks and other ready-to-drink beverages. We also produce or distribute other products and purchase finished goods and concentrate through various arrangements with PepsiCo or PepsiCo joint ventures. We reflect such purchases in cost of sales.

We share a business objective with PepsiCo of increasing the availability and consumption of Pepsi-Cola beverages. Accordingly, PepsiCo provides us with various forms of marketing support to promote its beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as a reduction of selling, delivery and administrative expense.

We manufacture and distribute fountain products and provide fountain equipment service to PepsiCo customers in some territories in accordance with the Pepsi beverage agreements. We pay a royalty fee to PepsiCo for the Aquafina trademark.

The Consolidated Statements of Operations include the following income (expense) amounts as a result of transactions with PepsiCo and its affiliates:

	2000	1999	1998
Net revenues	\$ 244	\$ 236	\$ 228
Cost of sales	(1,626)	(1,488)	(1,396)
Selling, delivery and administrative expenses	266	285	260

We are not required to pay any minimum fees to PepsiCo, nor are we obligated to PepsiCo under any minimum purchase requirements. There are no conditions or requirements that could result in the repayment of any marketing support payments received by us from PepsiCo.

With respect to PepsiCo’s 7.1% ownership of Bottling Group, LLC, Bottling Group, LLC guarantees that to the extent there is available cash, it will distribute pro rata to PepsiCo and PBG sufficient cash such that aggregate cash distributed to PBG will enable us to pay income taxes and interest on our \$1 billion 7% senior notes due 2029.

Net amounts receivable from PepsiCo and its affiliates were \$8 million and \$5 million at December 30, 2000 and December 25, 1999, respectively. Such amounts are recorded within accounts receivable in our Consolidated Balance Sheets.

Note 17: Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. We believe that the ultimate liability arising from such claims or contingencies, if any, in excess of amounts already recognized is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

Note 18: Acquisitions

During 2000 and 1999, we acquired the exclusive right to manufacture, sell and distribute Pepsi-Cola beverages from several independent PepsiCo franchise bottlers. These acquisitions were accounted for by the purchase method. During 2000, we acquired two territories in Canada for an aggregate purchase price of \$26 million in cash. During 1999, we acquired four territories in the U.S., one in Canada and one in Russia for an aggregate purchase price of \$185 million in cash and assumed debt. The aggregate purchase price exceeded the fair value of net tangible assets acquired, including the resulting tax effect, by approximately \$14 million and \$174 million in 2000 and 1999, respectively. The excess was recorded in intangible assets.

Note 20: Selected Quarterly Financial Data (unaudited)

2000 ⁽¹⁾	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	\$1,545	\$1,913	\$2,125	\$2,399	\$7,982
Gross profit	700	880	962	1,035	3,577
Operating income	75	191	256	68	590
Net income	17	85	123	4	229

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	\$1,452	\$1,831	\$2,036	\$2,186	\$7,505
Gross profit	617	785	874	933	3,209
Operating income	42	92 ⁽²⁾	205	73 ⁽³⁾	412
Net income (loss)	(3)	20	92	9	118

(1) Our 2000 results were impacted by a change in estimated useful lives of certain categories of assets. The favorable impact of this change in asset lives increased net income by \$8 million in the first quarter, \$10 million in the second quarter, \$9 million in the third quarter, \$12 million in the fourth quarter and \$39 million for the full year.

(2) Includes a \$45 million non-cash compensation charge (\$29 million after tax).

(3) Includes \$61 million of income for vacation policy changes and restructuring accrual reversal (\$38 million after tax).

The first, second and third quarters of each year consisted of 12 weeks, while the fourth quarter consisted of 17 weeks in 2000 and 16 weeks in 1999. The extra week in fiscal year 2000 contributed \$7 million of additional net income to our fourth quarter and fiscal year 2000 results.

See Note 4 of the Consolidated Financial Statements for further information regarding unusual impairment and other charges and credits included in the table above.

Note 19: Computation of Basic and Diluted Earnings (Loss) Per Share

shares in thousands	2000	1999	1998
Number of shares on which basic earnings (loss) per share is based:			
Average outstanding during period	147,147	128,426	55,000
Add – Incremental shares under stock compensation plans	2,188	—	—
Number of shares on which diluted earnings (loss) per share is based	149,335	128,426	55,000
Basic and diluted net income (loss) applicable to common shareholders	\$ 229	\$ 118	\$ (146)
Basic earnings (loss) per share	\$1.55	\$0.92	\$ (2.65)
Diluted earnings (loss) per share	\$1.53	\$0.92	\$ (2.65)

Diluted earnings per share reflect the potential dilution that could occur if the stock options from our stock compensation plan were exercised and converted into common stock that would then participate in net income. Our significant share price improvement during 2000 has resulted in \$0.02 per share of dilution in 2000.

In October 1999, our Board of Directors authorized the repurchase of up to 10 million shares of our common stock. In June of 2000, our Board of Directors authorized the repurchase of an additional 5 million shares of our common stock. We made net repurchases of approximately 5 million shares in both 2000 and 1999, respectively.

To Our Shareholders:

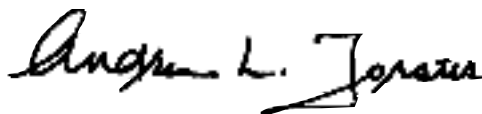
We are responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements, related notes and other information included in this annual report. The Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based upon our estimates and assumptions, as required. Other financial information presented in the annual report is derived from the Consolidated Financial Statements.

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the Consolidated Financial Statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

The Consolidated Financial Statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 30, 2000 provide reasonable assurance that our assets are safeguarded.

**Lionel L. Nowell III***Executive Vice President and Chief Financial Officer***Andrea L. Forster***Vice President and Controller*

The Board of Directors and Shareholders**The Pepsi Bottling Group, Inc.:**

We have audited the accompanying Consolidated Balance Sheets of The Pepsi Bottling Group, Inc. as of December 30, 2000 and December 25, 1999, and the related Consolidated Statements of Operations, Cash Flows and Changes in Shareholders' Equity for each of the fiscal years in the three-year period ended December 30, 2000. These Consolidated Financial Statements are the responsibility of management of The Pepsi Bottling Group, Inc. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of The Pepsi Bottling Group, Inc. as of December 30, 2000 and December 25, 1999, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

The logo for KPMG LLP, featuring the letters 'KPMG' in a bold, stylized font, followed by 'LLP' in a simpler, sans-serif font.

New York, New York
January 30, 2001

SELECTED FINANCIAL AND OPERATING DATA

Fiscal years ended in millions, except per share data	2000 ⁽¹⁾	1999	1998	1997	1996	1995
Statement of Operations Data:						
Net revenues	\$7,982	\$7,505	\$7,041	\$6,592	\$6,603	\$6,393
Cost of sales	4,405	4,296	4,181	3,832	3,844	3,771
Gross profit	3,577	3,209	2,860	2,760	2,759	2,622
Selling, delivery and administrative expenses	2,987	2,813	2,583	2,425	2,392	2,273
Unusual impairment and other charges and credits ⁽²⁾	—	(16)	222	—	—	—
Operating income	590	412	55	335	367	349
Interest expense, net	192	202	221	222	225	239
Foreign currency loss (gain)	1	1	26	(2)	4	—
Minority interest	33	21	—	—	—	—
Income (loss) before income taxes	364	188	(192)	115	138	110
Income tax expense (benefit) ⁽³⁾	135	70	(46)	56	89	71
Net income (loss)	\$ 229	\$ 118	\$ (146)	\$ 59	\$ 49	\$ 39

Per Share Data:

Basic earnings (loss) per share	\$ 1.55	\$ 0.92	\$ (2.65)	\$ 1.07	\$ 0.89	\$ 0.71
Diluted earnings (loss) per share	\$ 1.53	\$ 0.92	\$ (2.65)	\$ 1.07	\$ 0.89	\$ 0.71
Cash dividend per share	\$ 0.08	\$ 0.06	—	—	—	—
Weighted-average basic shares outstanding	147	128	55	55	55	55
Weighted-average diluted shares outstanding	149	128	55	55	55	55

Other Financial Data:

EBITDA ⁽⁴⁾	\$1,061	\$ 901	\$ 721	\$ 774	\$ 792	\$ 767
Cash provided by operations	831	718	625	548	451	431
Capital expenditures	(515)	(560)	(507)	(472)	(418)	(358)

Balance Sheet Data (at period end):

Total assets	\$7,736	\$7,624	\$7,322	\$7,188	\$7,052	\$7,082
Long-term debt:						
Allocation of PepsiCo long-term debt	—	—	3,300	3,300	3,300	3,300
Due to third parties	3,271	3,268	61	96	127	131
Total long-term debt	3,271	3,268	3,361	3,396	3,427	3,431
Minority interest	306	278	—	—	—	—
Advances from PepsiCo	—	—	1,605	1,403	1,162	1,251
Accumulated other comprehensive loss	(254)	(223)	(238)	(184)	(102)	(66)
Shareholders' equity (deficit)	1,646	1,563	(238)	(184)	(102)	(66)

(1) Our fiscal year 2000 results were impacted by a change in estimated useful lives of certain categories of assets and the inclusion of an extra week in our fiscal year. The favorable impact of the change in asset lives increased net income by \$39 million, or \$0.26 per share, and the extra week increased net income by \$7 million, or \$0.05 per share.

(2) Unusual impairment and other charges and credits comprises the following:

- \$45 million non-cash compensation charge in the second quarter of 1999.
- \$53 million vacation accrual reversal in the fourth quarter of 1999.
- \$8 million restructuring reserve reversal in the fourth quarter of 1999.
- \$222 million charge related to the restructuring of our Russian bottling operations and the separation of Pepsi-Cola North America's concentrate and bottling organizations in the fourth quarter of 1998.

(3) 1998 includes a \$46 million income tax benefit in the fourth quarter for the settlement of a disputed claim with the Internal Revenue Service relating to the deductibility of the amortization of acquired franchise rights.

(4) Excludes the non-cash component of unusual impairment and other charges and credits.

John T. Cahill*President and Chief Operating Officer**CEO Designate*

11 years

Robert W. Cameron*Business Unit General Manager, Texoma*

15 years

L. Kevin Cox*Senior Vice President and Chief Personnel Officer*

11 years

Shawn E. Dunn*Senior Vice President, Finance*

10 years

Andrea L. Forster*Vice President and Controller*

13 years

Eric J. Foss*Executive Vice President and General Manager,**PBG North America*

18 years

Christopher D. Furman*Business Unit General Manager, Southern California*

14 years

Scott J. Gillesby*Business Unit General Manager, Central*

19 years

James Keown*Business Unit General Manager, Southeast*

25 years

Robert C. King*Vice President, National Sales and Field Marketing*

11 years

Harrauld F. Kroeker*Business Unit General Manager, Mid-Atlantic*

15 years

Linda A. Kuga*President, PBG Canada*

19 years

Christopher S. Langhoff*Vice President and Treasurer*

11 years

Pamela C. McGuire*Senior Vice President, General Counsel and Secretary*

23 years

Lionel L. Nowell III*Executive Vice President and Chief Financial Officer*

9 years

Yiannis Petrides*President, PBG Europe*

13 years

Eric W. Reinhard*Business Unit General Manager, Great West*

17 years

William L. Robinson*Business Unit General Manager, Pacific Northwest*

16 years

Barry J. Shea*Business Unit General Manager, Russia*

24 years

Paul T. Snell*Business Unit General Manager, Northeast*

24 years

Gary K. Wandschneider*Senior Vice President, Operations*

19 years

Craig E. Weatherup*Chairman and Chief Executive Officer*

26 years

Corporate Headquarters**The Pepsi Bottling Group, Inc.**

1 Pepsi Way
Somers, New York 10589
914.767.6000

Annual Meeting

The next annual meeting of shareholders will be held at 10:00 a.m., Wednesday, May 23, 2001, at PBG headquarters in Somers, New York.

Transfer Agent

For services regarding your account such as change of address, replacement of lost certificates or dividend checks or change in registered ownership, contact:

The Bank of New York

Shareholder Services Department

P.O. Box 11258
Church Street Station
New York, New York 10286-1258

Telephone: 800.432.0140

E-mail: shareowner-svcs@bankofny.com

Website: <http://stock.bankofny.com>

Or

The Pepsi Bottling Group, Inc.

Shareholder Relations Coordinator

1 Pepsi Way
Somers, New York 10589
Telephone: 914.767.6339

In all correspondence or telephone inquiries, please mention PBG, your name as printed on your stock certificate, your Social Security number, your address and telephone number.

Investor Relations

PBG's 2001 quarterly releases are expected to be issued the weeks of April 23, July 16 and October 8, 2001 and January 28, 2002.

Earnings and other financial results, corporate news and other company information are available on PBG's website: <http://www.pbg.com>

Investors desiring further information about PBG should contact the Investor Relations department at corporate headquarters at 914.767.6339.

Stock Exchange Listing

PBG
LISTED
NYSE

Common shares (symbol: PBG) are traded on the New York Stock Exchange.

Independent Public Accountants**KPMG LLP**

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New York, New York 10154

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